

A Child, a Youth, A Dog: Amazing Tales of Survival From Lost Plane

CALI, Colombia — A father and daughter, a dog, Elation gave to despair and then elation again Friday in the recovery of the few survivors of the crash of an American Airlines jet in Colombia.

The number of survivors fluctuated throughout the day, from as few as four to as many as eight out of the 164 people aboard the plane when it plowed into a mountainside late Wednesday.

One of the first survivors to be rescued was spotted by his brother, Andres Reyes, who was in a helicopter surveying the area when he saw his brother Mauricio, 19, a business student at the University of Michigan.

Gonzalo Dussan Monroy and his 6-year-old daughter, Michelle, called out to one another amid the debris. Early reports said the rest of their family — Nancy, the mother, and Gonzalo Jr., 13 — had survived, too, but as the day passed hopes faded.

"I get a different story from everybody," said a sister-in-law of Mr. Dussan's, Miriam Mera, who shares a New Jersey home with his family. "I am depressed."

Mr. Dussan said he had noticed nothing amiss aboard the plane and was not even aware of the crash until he woke up on the ground in the Andean cold.

Heavy snow in the Northeast United States delayed connecting flights from New York, and caused many people to miss their connections to the doomed

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Relatives of passengers on the doomed American Airlines Miami-Cali flight waiting for news of loved ones at a Colombian Army base Friday.

Labor Talks Fail to Settle French Mood Of Disquiet

Union Leaders Brand Government Proposals On Jobs 'Inadequate'

By Joseph Fitchett
International Herald Tribune

PARIS — After the worst labor disruption in a decade, France entered the holiday lull on Friday amid suspense about the risk of fresh troubles in the new year as labor leaders voiced dissatisfaction about job plans offered by Prime Minister Alain Juppé.

Although trains were restored for Christmas departures, union leaders warned that the government's response was "dangerously inadequate" for France's social unrest. But they did not specifically threaten fresh strikes of the sort that paralyzed the country for most of December.

They spoke after a 10-hour meeting, described as a "social summit," in which Mr. Juppé sought to find common ground with the trade unions after the monthlong confrontation. "It was a molehill, not a mountain," one union leader said.

No sense of psychological resolution emerged from the marathon session among government ministers, union leaders and the head of the French industrialists' association, who had sought to find a way to move beyond the sour divisions of the strikes.

Some economists offered a more upbeat reading, saying that the Juppé government had struck to an agenda that promised further interest-rate cuts and perhaps an uptick in consumer spending. The impact of those gains, however, would only come in the second half of next year.

A spokesman for the government called the talks a "success," just because they had taken place after a period of severe tension, and said that the government expected more intensive consultations with union leaders in the coming months.

The only echo of this view came from Nicole Notat, leader of the reform-minded Democratic Confederation of French Trade Unions, who said that the talks had produced a skeleton of government promises that would have to be fleshed out in the months ahead.

Mrs. Notat, who kept her union largely on the sidelines during the strikes, saw Mr. Juppé adopt her emphasis on youth unemployment, including a call for companies to fill half their job vacancies with people under 25. In addition, the government called for a speedup in business-union negotiations over part-time work and other measures designed to inject more flexibility into the labor market.

For financial observers, the key point was different: the fact that no challenge materialized to Mr. Juppé's plans for reorganizing the nation's health-care system, which is the centerpiece of his attempts to decrease the nation's deficits and keep France competitive with Germany.

In its latest long-term forecast, the investment firm Smith Barney has offered a more optimistic prediction for the French economy, saying that despite the strikes' impact, both France and Germany can ex-

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Santa's Real Elves Are Hard-Working, Badly Paid and Poor

By Steven Mufson
Washington Post Service

SHENZHEN, China — To find Santa's workshop, start at the North Pole and point your reindeer south. Way south, until you arrive at the paved-over rice paddies of southern China.

Here you'll find Santa's helpers: about 300,000 low-paid Chinese migrant workers, virtually all of them women in their late teens and early 20s.

By night, the women live in fenced-in concrete dormitories with five to eight people in a room. By day, in hundreds of factories, they work on assembly lines, molding, painting, scraping, testing and boxing Christmas presents that will sit under trees and hang from mantles in homes across America and Europe. No holly decks these halls, no whistling while they

work and the only jingle is the sound of money being made by toy companies.

The Chinese government calls this boomtown an SEZ, which stands for special economic zone.

But the initials could easily stand for "Santa's economic zone." Southern China has become the toy workshop of the world. Of all the toys sold in the United States, for example, more than 40 percent are made in China, with an export value of \$4.7 billion and a retail value six to eight times as high. Items range from Christmas ornaments to Disney dolls. One factory alone makes one-third of the world's pop-up books for children. With such volumes, shipping is not done by sleigh, but by containers sent through Hong Kong's harbor.

The growth of Shenzhen's toy industry has been fueled by foreign investment and cheap labor.

"The industry has gone in for low-cost labor ever since World War II," said David Miller, head of an American association of toy manufacturers. As a result, American toymakers have moved their operations from Japan to Taiwan to Singapore to Thailand and now to China.

If Shenzhen is Santa's workshop, then Dennis H.S. Ting is one of Santa's biggest subcontractors. The Hong Kong toy magnate is managing director of Qualidux Industrial Co. and chairman of Kader Holdings Co., with revenue around \$100 million a year. Over the years, Mr. Ting estimates, his companies have made 80 million Star Wars characters, about 30 million Mighty Morphin Power Rangers and nearly 10 million Cabbage Patch dolls.

This year, Mr. Ting's companies will make more than 100 different types of toys, including more

Power Rangers, My First Buddy's, a doll for Mattel's Dream Cruiser, Bitty Big Rigs and a series of toys from Louis Galoob Toys Inc. of Del Rio, Texas including "My Pretty Dollhouse," "Enchanted Castles," "Biker Mice From Mars," and "Blazin' Cycle." Most of the toys ooze in stores in the United States were made between July and October.

About 15,000 of Santa's elves work in China for the two Ting companies, including 6,000 at the biggest of three Qualidux plants. They sit on the lowest rung of the toy-making chain. If a toy costs \$10 in the United States, it probably had a price of \$1.60 when it left the factory in Shenzhen. Of that factory price, only 10 percent to 25 percent went into labor costs.

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What Do Girls Want? Toys That Teach Them How to Attract Boys

By Megan Rosenfeld
Washington Post Service

WASHINGTON — Imagine this Christmas Day scene: Four 7-year-old girls, their tender cheeks flushed with excitement, settle down to play a new board game called Sealed With a Kiss.

The girls choose their playing pieces — a colored pawn and a postcard-size picture of a teenage boy, a "hunk." One girl twirls the spinner to see how many places she will move her pawn around the board.

She lands on a picture of a girl and boy embracing. Great! "Spin an 'X' to give a kiss." She gets an "X," and stamps her "hunk's" face with the "cool" Kiss Stamp, which leaves a lipstick mouth. The first girl to get five kisses wins.

In a toy industry already dominated by males as

producers and consumers, both parents and manufacturers are interested in boosting sales of female-oriented toys. One study found that 11 of the 15 most advertised toys in 1995 were aimed at boys. Another study found that, in a typical toy supermarket like Toys "R" Us, seven aisles were crisscrossed with things for boys, while five aisles — mostly of dolls, and mostly packaged in pink and purple — were for girls.

The catch is, after doing what they describe as "extensive" research, toy companies say that to make toys interesting to girls they have to focus on one element: boys.

"We're concerned that the pink and purple aisle has very traditional notions of what girls are about," said Heather Johnston Nicholson, director of the National Resource Center of Girls in Indianapolis. "Real girls are active and adventuresome, but what's

in the pink and purple aisle is boring and patronizing."

"We're teaching girls at younger and younger ages that your most important job is to be attractive, to grab a male, to think of your life in terms of a relationship with one other person," she added.

Take Dream Phone (ages 9 and up), which comes with a battery-powered pink plastic telephone on which to call "cute guys," to discover the identity of your "secret admirer." Is it Dale? Jamal? The phone offers clues: "I know where he hangs out," says the electronic voice. "He's not at the snack shop."

The girl who correctly guesses which guy has a crush on her wins. You lose a turn if you draw the card that says, "Mom says hang up," with a picture of a crabby-looking woman wearing a kerchief tied around her head.

Milton Bradley Co., the company that markets Dream Phone, said the game was the product of consumer research into what girls want.

"We design our games based on what they say," a company spokesman, Mark Morris, said. "The object of the game is trying to see who has a crush on you, but the game play itself is one where you're checking into all these details and places. It's really a game of deductive logic."

Milton Bradley also markets Girl Talk, for ages 8 and up, a board game with a spinner that directs the players to do or say things for points:

"Describe in detail the worst time you threw up."

"Call the cutest guy in your class and tell him

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Soros on Russia: A Place (Still) Worth the Wager

By Michael R. Gordon
New York Times Service

NEW YORK — The Communists may be on the march again. Economic reforms have faltered. But George Soros has not given up on Russia.

The billionaire financier and self-appointed promoter of capitalism and democracy in former Communist countries is selectively investing in Russia despite all the risks and the ominous headlines.

For those who track Mr. Soros's globe-trotting operations that is a switch. Just last year, Mr. Soros visited Moscow, decided that the emerging financial market there was about to burst and gave the order to sell. "I got out almost entirely," Mr. Soros said last week. "Currently I am going back in. I do it because the reward in certain situations is so great it is worth taking the risk."

None of this makes Mr. Soros an optimist on Russia. If his investment strategy could

be summed up in a single phrase it would be "cautiously pessimistic," he said.

Mr. Soros was more eager to talk about his political analyses of the new Russia than to detail his specific investments or investment strategy.

Generally upbeat about the progress East European nations have made toward a market economy, Mr. Soros has had long, and profitable, experience in emerging markets. But he said he does not consider Russia, with its shaky legal structure and nascent commercial code, to be a true emerging market.

Mr. Soros's Russia is a land dominated by what he terms "robber capitalism": simply put, a breakdown of legal and financial controls, which has set off a race among the new elite to appropriate the assets of the former Soviet Union.

Enriched by their new factories and com-

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Newsstand Prices	
Andorra.....10.00 FF	Morocco.....14 Dh
Antilles.....12.50 FF	Catar.....10.00 Riels
Cameroon 1.600 CFA	Réunion.....12.50 FF
Egypt.....EE 5	Saudi Arabia 10.00 R.
France.....10.00 FF	Senegal.....1.100 CFA
Gabon.....1100 CFA	Spain.....225 PTAS
Greece.....380 Dr.	Tunisia.....1.250 Din
Italy.....2.800 Lire	Turkey.....T.L. 60,000
Ivory Coast 1.250 CFA	U.A.E.....10.00 Dirh
Jordan.....1.250 JD	U.S. M. (Eur.).....\$1.20
Lebanon.....US\$ 1.80	U.S. M. (Eur.).....\$1.20

Dow Jones		Trib Index	
Up	1.44	Up	0.55%
5087.87		132.04	
The Dollar		Previous Close	
DM	1.4376	1.4387	
Pound	1.543	1.5416	
Yen	102.295	101.775	
FF	4.9195	4.931	

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AGENDA

New Owners for St. Louis Cardinals

ST. LOUIS, Missouri (AP) — The brewer Anheuser-Busch said Friday it had agreed to sell the St. Louis Cardinals for \$150 million to a group of investors who say they will keep the team in the city.

The deal still must be approved by major league baseball, and the new owners expect to close the deal Feb. 15.

Anheuser-Busch announced in October that it wanted to sell the team, which it said lost \$12 million in 1995.

Gingrich Investigation

WASHINGTON (AP) — A House panel Friday named James Cole as special counsel to investigate allegations that the House speaker, Newt Gingrich, misused a college course for political purposes.

Vatican Assails Secular Sex Education

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Questions Over Budget Compromise

ASIA Page 5.

North Koreans Free a Ship's Crew

EUROPE Page 5.

No Hope of Throne for Charles's Love

INTERNATIONAL Page 5.

Beitlehem Bars Israelis at Festivities

BUSINESS/FINANCE Page 7.

Tokyo Plan Would Stabilize Credit



VOTING WEATHER — Polling officials carrying a ballot box to the village of Erzurum in Turkey. Parliamentary elections were to be held Sunday.

Vietnam's New Elite Finds That Education Doesn't Pay

By Tim Larimer
New York Times Service

HANOI — After the fall of Saigon and the end of the Vietnam War in 1975, thousands of Vietnamese fled the country in an exodus that included many scientists, doctors and engineers.

Two decades later, another kind of brain drain, this one internal, is bleeding talent from the country's universities, hospitals and government ministries.

This time members of the educated class are not leaving Vietnam. They are abandoning their professions for jobs that pay more but make no use of their educations.

"It is my dream to work as a doctor, but the pay is too small and the conditions are not good," said Cao Minh Tuan, 35, who traded in his stethoscope to sell television sets. "Now I make enough money to buy two houses. On a doctor's salary, I could never do that."

Mr. Tuan's conversion from doctor to merchant has made him wealthy. Many others like him are discovering that the introduction of a market economy in Communist Vietnam means that there is more money to be made in the private sector. But privatization thus far does not mean they can automatically simply shift their jobs from the government payroll to better-paying positions.

There are not yet any private hospitals or clinics, for example, and the idea of private medical practice has not yet caught on. Many doctors find secondary sources of income. Selling pharmaceuticals is among the most popular.

But the professions that once commanded stable government wages, subsidized housing and lifetime security — teaching, engineering, medicine — have yet to benefit from moves toward a free market.

The real opportunities for getting rich are in tourism, real estate and trade, or with foreign companies. At the

same time, government ministries, schools and hospitals are cutting jobs.

So people with advanced degrees are taking jobs that have little to do with their education. Hotel receptionists usually have college degrees. Taxi drivers often do, too.

A recent graduate of medical school washes cars for a living. He makes more money than he would working in a hospital.

A schoolteacher works as a doorman for an upscale hotel. A geography professor has made a small fortune in real estate and has opened a beer hall. Doctors in a rural province outside Hanoi work as bricklayers.

"We are in kind of a transition period," said Nguyen Thanh Ha, who has studied the brain drain for the government's Institute for Science Management. "The labor market is not yet functioning well. If things are not

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Compromise Is Not on Everyone's Budget Agenda

By Ann Devroy
Washington Post Service

WASHINGTON — A liberal Democrat, prying for the budget talks to blow up, insisted this week that President Bill Clinton had little to gain and much to lose by compromising with the Republicans.

When Mr. Clinton has stood up to the Republicans, the liberal pointed out, his public approval has grown. But every time he has moved closer to the Republican agenda, he has lost support within his own party and risked his identity as a Democrat.

Conservative Republicans see little reason for their leaders to find common ground with the president.

"Why should we let him off the hook?" a conservative said of Mr.

Clinton. "We campaigned on a seven-year balanced budget and won the Congress. We are not going to compromise on that. This is not about compromise."

While the White House and Republican congressional leaders

NEWS ANALYSIS

continue their very public fight over how to balance the budget, it is a very different set of arguments, outside the public view, that ultimately may prove decisive. These are the internal party debates, between Mr. Clinton and liberal Democrats and between Newt Gingrich and the most conservative Republicans, over how much, if anything, to give up to secure a budget agreement.

As demonstrated this week when House Republicans rejected the handshake deal between their leaders and Mr. Clinton, these all-in-the-family discussions may be tougher in some ways than the more public partisan skirmishes.

Any budget compromise will probably entail getting the House freshmen to give up part of the agenda on which they have staked their own identities, including some or all of its \$240 billion tax cut and the proposed savings in Medicare and Medicaid. Compromise for the Democrats will mean agreeing to large spending cuts in domestic programs near and dear to their hearts and political careers.

An administration official said a deal may be possible only if both

sides abandon the "true believers" on both ends of the spectrum.

But liberals warn that such a strategy could backfire on Mr. Clinton in a major way. The Democrat prying for the failure of the budget negotiations offered an illustration.

"Remember 1990?" he asked. "That's what George Bush did: abandoned his conservatives, went for a budget deal with a tax increase, called it good government and lost the political high ground and the election."

There is some truth in that analysis. Mr. Clinton's own failed health care proposal during the first half of his administration proposed scaling back the growth of Medicare and Medicaid. A tax cut was the centerpiece of the proposed "Middle

Class Bill of Rights" he introduced shortly after the last election in response to the perceived voter sentiments that had led to the Republican landslide. Yet his popularity continued to slide.

Mr. Clinton's numbers began to rise — as the Republicans began to fall — only after he found a potent political life raft in proclaiming that he would protect Medicare and Medicaid from the congressional onslaught. He suddenly became a fighter for principle and a politician who stood for something.

And throughout the last six months, as Mr. Clinton has moved from opposition to a balanced budget to agreement for a 10-year, and then a 7-year plan, the Republicans have given barely an inch.

No Agreement on Shutdown

The Associated Press

WASHINGTON — President Bill Clinton and Republican leaders met Friday, but concluded their meeting without reaching an agreement to end the partial shutdown of the government before the end of the year.

They will not meet again until late next week.

"This president wants, above all, wants to see the restoration" of the government services, the White House press secretary, Michael McCurry, said, "but everybody here knows that will not happen."

Although they issued a joint statement trumpeting the "good meetings" on Democratic and Re-

publican differences over a plan to balance the budget in seven years, there was no elaboration.

Congressional leaders were whisked past reporters waiting in the White House driveway, and they offered no statements.

Staffs for both sides will continue working on differences, and report back in a meeting between the leaders next Friday.

Earlier, Senate leaders expressed hope that a budget compromise would be found. "We are negotiating," Senator Bob Dole, the majority leader, said on the Senate floor.

The stalemate that has idled 250,000 federal employees entered its seventh day Friday.

Clintons' Good News Doesn't Make News Media Ignore Investigator's Report on Whitewater

By Howard Kurtz
Washington Post Service

WASHINGTON — "This should have been a great week for the Clintons on the subject of Whitewater," Ted Koppel declared on the television program "Nightline."

The reason, the program explained, was that a former Republican prosecutor, in a report to federal authorities, concluded that President Bill Clinton and his wife knew little about

the failed Arkansas land venture that has spawned the Whitewater investigations.

Yet Mr. Koppel's own program kicked off the report in a couple of sentences Tuesday, devoting the broadcast to more suspicious Whitewater currents. The New York Times has not run a word about the final report. The Los Angeles Times, The Washington Times and The Chicago Tribune ran 400 or fewer words of the Associated Press article on inside pages.

The Washington Post mentioned the findings Saturday in the 11th paragraph of a front-page article about a Whitewater subpoena battle.

In that subpoena battle, the White House agreed Thursday to turn over documents related to Whitewater sought by Congress.

To be sure, the report by a former federal prosecutor, Jay Stephens, does not put to rest many of the issues swirling around in the aftermath of Whitewater and the suicide of a White House lawyer and Arkansas friend of the Clintons, Vincent Foster. Suspicions and lingering questions often seem to loom larger than answers in the three-and-a-half-year-old Whitewater affair.

"We've all spent huge amounts of ink on the speculation people have had about the problem," said Alan Murray, Washington bureau chief of The Wall Street Journal, which on Monday was the only major newspaper to carry a staff-written article on the report. "We could afford to spend a little ink on a report that suggests there wasn't a problem. Basic fairness requires that you do it."

But other journalists say the report came as little surprise, that it dealt with relatively narrow questions and that several newspapers had publicized a preliminary version in June.

"This report, while it's certainly good news for the Clintons, doesn't resolve all the

questions by a long shot," said Jeff Greenfield, the ABC reporter who did the "Nightline" story. He said journalists covering Whitewater deemed the report "old news."

Karen DeYoung, The Post's assistant managing editor for national news, said she agreed with two of her reporters "that there was very little that was new in it from the substantial coverage we had given to the draft over the summer."

But the White House press secretary, Michael McCurry, sees other factors at work.

"For most editors and journalists, Whitewater has morphed into something else, gory speculation about Vince Foster and so on," he said, adding, "Here's a report that corroborates what the Clintons have said, but it's not newsworthy because it doesn't deal with what the popular culture considers Whitewater."

The report, prepared for the Resolution Trust Corp., the government agency overseeing failed savings and loans, was overshadowed by the Senate Whitewater committee's hearings into the conduct of the Clintons, their friends and their advisers after Mr. Foster's death in the spring of 1993.

The panel unearthed evidence that Hillary Rodham Clinton did more work in the 1980s than she has acknowledged for Madison Guaranty, the Arkansas savings and loan at the heart of the case.



Senator Dole pondering a reporter's question during a break in budget talks.

Clinton to Wait Before Visiting GIs in Bosnia

The Associated Press

WASHINGTON — President Bill Clinton wants to visit U.S. troops in Bosnia when military leaders tell him it is appropriate, and he suggested Friday that Senator Bob Dole and others who want to go should do the same.

"I don't want to interrupt deployment in any way," Mr. Clinton said during a briefing at the Pentagon. "If it was solely up to me, I would go tomorrow — literally tomorrow — but I think it's very important that I not do anything which interrupts the deployment."

He added: "All of us should consult with the military leaders and do what is consistent with the interests of our troops in the mission."

Mr. Dole, the Senate majority leader and leading candidate for the Republican Party's nomination in the 1996 presidential elections, has said he would like to share the holiday season with the troops if the current government budget crisis can be ended.

Others who have announced tentative plans to go to Bosnia are Senators Thad Cochran, Dirk Kempthorne and Ted Stevens, all Republicans.

"We were told it was a very bad idea," the White House press secretary, Michael McCurry, said. "It would interfere with the deployment that is now under way and, frankly, we would get in the way."

Mr. Clinton said the possibility of American casualties worried him, but he said the troops were performing well and working to "minimize casualties."

POLITICAL NOTES

House Approves Book Royalties

WASHINGTON — The House voted Friday, 259 to 128, to approve unlimited book royalties for legislators, while the Senate backed, 52 to 47, a welfare reform bill that President Bill Clinton has called "tough on children."

The Senate's vote gives congressional approval to a bill that, among other things, replaces the Aid to Families with Dependent Children program with block grants to states.

The House action followed an outcry over a \$4.5 million advance promised to the House speaker, Newt Gingrich, last year. The Republican later agreed to take an advance of only \$1 for two books. (AP)

In a First, Congress Dumps Veto

WASHINGTON — The Senate joined the House on Friday to override Mr. Clinton's veto of a bill restricting investors' ability to sue companies in which they own stock.

It is the first time Congress has overridden a Clinton veto. The 68-to-30 vote assured that the bill will become law despite his objections. The bill limits attorney fees and permits the court to award fees and costs to the winning party in the event of a meritless or frivolous suit. (AP)

O'Leary Shrugs Off Criticism

WASHINGTON — Energy Secretary Hazel R. O'Leary has accused her Republican critics of targeting her because they have failed in their efforts to eliminate her department.

"I'm sure the thinking is that if they can't bring down the department at least they can get the secretary," she said. Her critics are trying to oust her following reports that her department had hired a service to track reporters covering energy stories. She also has been branded the most frequent foreign traveler of the domestic cabinet members. (WP)

Quote/Unquote

Norris Beards, a World War II veteran, on the cutoff of veterans' benefit checks due to the federal budget deadlock: "You offer your life in war and you don't get benefits. But the politics, it just goes on and on." (AP)

Away From Politics

• An Ohio man who prosecutors said harassed his former wife and sent her hundreds of threatening letters after she fled with their young son to New Jersey has become the first man in the country to be arrested under a federal law included in the year-old Violence Against Women Act. (NYT)

• The Florida Supreme Court has struck down a century-old law requiring husbands to pay for their wives' housing, food, clothing and medical bills. Since the Constitution demands "equality between the sexes, it follows that a husband can no longer be held liable for his wife's" debts, the court said. (AP)

• Prosecutors say a survey of potential jurors in Oklahoma showed that Timothy J. McVeigh and Terry L. Nichols can get a fair trial in the state, contradicting claims by the defendants in the Oklahoma City bombing, who have sought to move the trial out of state. (AP)

• A federal appeals court panel has ordered the attorney general of Georgia to defend his withdrawal of a job offer to a lesbian who participated in a religious "commitment" ceremony with her female partner. (NYT)

Alexina Duchamp, 89, Artist's Widow, Dies

By John Russell
New York Times Service

Alexina Duchamp, 89, the widow of Marcel Duchamp, died at her home in Villiers-sur-Grèze, near Paris, on Wednesday.

As a former daughter-in-law of Henri Matisse and a close friend of John Cage and Jasper Johns, she was in her later years the unquestioned doyenne of the survivors of a great age in art, dance and music.

She had close ties to Philadelphia and took pride in being an honorary trustee of its Museum of Art, which has by far the largest collection of Duchamp's work. She was delighted when, in 1967, Duchamp's last major work, the scenographic "Etant Donnés" ("Given: 1. The Waterfall, 2. The Illuminating Gas") was installed there.

"Etant Donnés" had been built in secret in New York between 1964 and 1966, at a time when Duchamp was believed to have stopped working forever. During much of its construction Mrs. Duchamp was the artist's sole confidante.

Alexina Sattler was born in Cincinnati on Jan. 6, 1906, the daughter of Robert Sattler, an ophthalmologist who ran his own hospital (with a free clinic attached to it), and his second wife, the former Agnes Mitchell.

She at first thought of becoming an artist and for a time studied sculpture with Constantin Brancusi in Paris. In December 1929, she married the son of Henri Matisse, Pierre, who would be an art dealer in New York for 50 years. When he was mobilized in Paris at the start of World War II, she ran the gallery herself for some months.

She was divorced from Matisse in 1949 and married Duchamp in 1954. After his death in 1968, she became close to Cage, the composer, and to a whole new circle of friends.

Dr. Hugh Hollingsworth Smith, 93, a virologist who was a principal member of the scientific team that developed the yellow-fever vaccine for the Rockefeller Foundation in the 1930s, died Monday at his home in Tucson, Arizona.

Funds Set for Covert Action Against Iran

By R. Jeffrey Smith
and Thomas W. Lippman
Washington Post Service

WASHINGTON — Bowing to pressure from the House speaker, Newt Gingrich, the Clinton administration has agreed to accept a House bill authorizing a small-scale covert action program aimed at moderating the radical Islamic government in Iran, including cultivating new opponents to the regime, administration and congressional sources say.

Mr. Gingrich has described Iran as "the most dangerous country in the world" and for weeks had been quietly holding up House approval of a \$28 billion intelligence community spending bill in an effort to force the administration to accept a covert program that targets the Iranian government.

With support from some senators, the administration resisted funding any program aimed at overthrowing the Tehran regime, as CIA officials said it was unlikely to succeed. But House and Senate negotiators hammered out a deal Tuesday that authorizes secret spending of up to \$20 million for a covert anti-Iran program.

Instead of trying to overthrow the

regime, the program would have the less ambitious aim of blunting Iran's extremist policies and encouraging it to move — even if slowly — toward democracy, several sources said.

The bill does not authorize any spending for lethal military aid to anti-Iran forces, such as the assistance the Reagan administration provided to the contra rebels in Nicaragua to try to destabilize the government, several sources said.

The secret provision is contained in the intelligence funding bill the House passed Thursday, sources said. Congressional sources said the Senate was expected to approve it as well, and sources in Congress and the administration predicted that President Bill Clinton would sign the legislation shortly after he receives it. Two sources said the administration had agreed to spend some of the anti-Iran funds.

"For the most part, Gingrich is satisfied with the bill," a spokesman for the speaker said, while declining to discuss what the bill said.

The funding plan is one of several recent U.S. initiatives that target the policies of Iran's leadership. U.S. officials say it has tried to undermine the Middle East peace

process, supported terrorism in the Middle East and elsewhere and tried to create a nuclear arsenal.

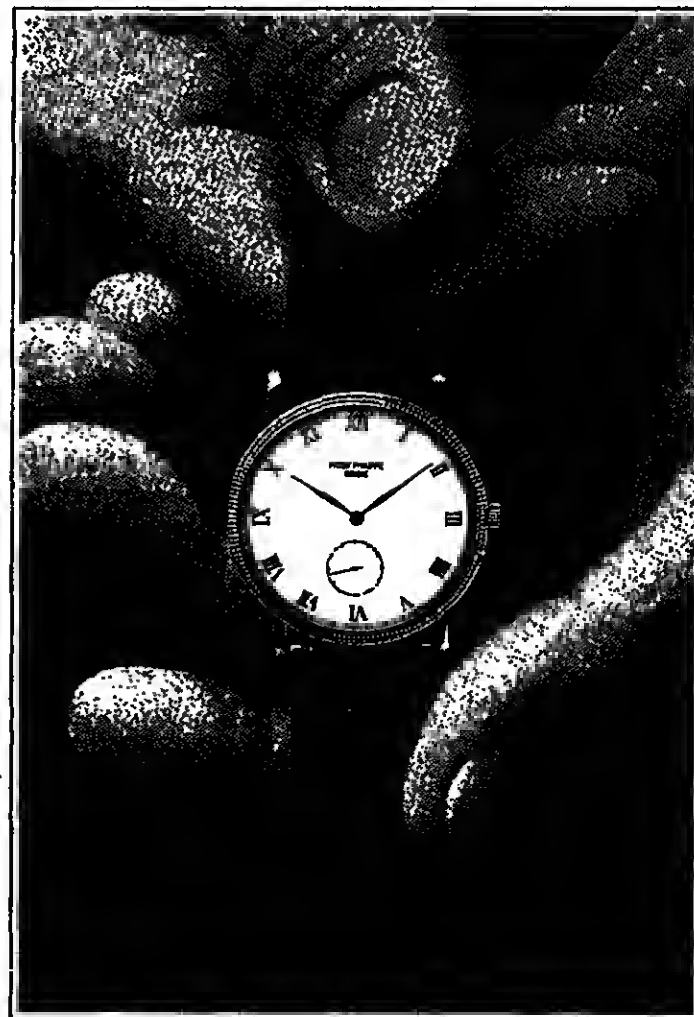
The Senate also approved a bill Thursday that would tighten existing U.S. trade sanctions against Iran by punishing foreign companies that invest in the country's oil industry — a bill the administration also has said it would accept. Earlier in the week, U.S. officials formally agreed with representatives of 27 other nations to create a multilateral organization dedicated to stopping Iran and three other nations from obtaining armaments and militarily sensitive dual-use goods.

The Senate also agreed to apply the same penalties against foreign companies investing in Libya's oil business.

Senator Alfonse M. D'Amato, Republican of New York, and Senator Edward M. Kennedy, Democrat of Massachusetts, went after Libya, another oil-dependent economy, to mark the seventh anniversary of the bombing of Pan Am Flight 103 over Lockerbie, Scotland. Libya has refused to hand over two suspects in the bombing.

The measure probably would have less effect on Libya than on Iran because Libya is already under United Nations sanctions.

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EDITORIALS/OPINION

Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

A Royal Mess

Queen Elizabeth II, lacking some of the powers afforded earlier English monarchs, has settled for divorce to rid the House of Windsor of the bedeviling marriage of the Prince and Princess of Wales.

There was a time when the English sovereign dealt more decisively with royals who made trouble or outlived their welcome. The most common punishments since Henry VIII's day were execution (two of Henry's wives and Mary, Queen of Scots), incarceration (George I's wife, for adultery) and exile (Edward VIII, the Duke of Windsor).

Prince Charles seems ready to oblige his mother, and the Archbishop of Canterbury, George Carey, presumably gave his assent for divorce before Buckingham Palace disclosed the queen's strategy.

Princess Diana has not yet been heard from, but she told the BBC last month she would be guided by her husband's wishes on the survival of their marriage.

Ending the marriage will not end the royal mess. There is, for instance, the question of whether Prince Charles, 47, the heir to the throne, might wish both to remarry and to be king. British monarchs are defenders of a faith that does not sanc-

tion the remarriage of divorced persons. There is no easy solution. The order of succession could be changed to pass by Prince Charles and go directly to his elder son, William. But after his long apprenticeship, Charles might understandably be unenthusiastic about that idea.

Perhaps the Church of England could just bend its rules a bit. Henry VIII, who established the Church, was twice divorced and five times rewed.

Just as knotty is the matter of Diana's future after a divorce. She says she wants to be a roving ambassador and to reign in the hearts of her people. She will certainly want a generous financial settlement, access to her children and a title befitting her rank. Nothing so angered the Duke of Windsor after his abdication as his family's refusal to call his twice-divorced American wife Her Royal Highness.

All of this will take months, if not years, to sort out. While they watch, the British people, whose taxes support the monarchy and its legal fees, may tire of the melodrama and decide to adopt a republican form of government. We would not be on it.

—THE NEW YORK TIMES

Hurtful Welfare 'Reform'

President Bill Clinton earlier this year gave way too much ground in endorsing one bad welfare bill. This past week, he finally took the right stance in announcing that he would veto a successor bill that is even worse. Better late than never, and not a moment too soon.

His announcement came as the House passed this terrible piece of legislation and the Senate prepared to take it up. This time, Mr. Clinton should stick to his position, and the bill's opponents should have the political will to sustain any veto. That would provide the one chance of passing welfare reform that does what it claims—or, failing that, of at least avoiding a dangerous step toward something worse even than the current system.

Advocates of this bill's deep cuts in programs for the poor and its ending of welfare's "entitlement" status like to cast themselves as true friends of the poor and foes of "dependency." Their hardheartedness, they say, grows from warmheartedness and a desire to promote work.

But the House Ways and Means subcommittee on human resources heard a very different analysis from Lawrence M. Mead, a welfare expert much respected by Republicans and conservatives. Professor Mead was out at all confident that Congress's welfare proposal would do

much to promote work. On the contrary, he said, it imposes theoretical "work requirements" that states will have great trouble meeting. He suggested that the states might just dump work requirements entirely and take the modest 5 percent cut in federal aid that the bill proposes. This is "welfare reform."

But hear out Mr. Mead's argument. "To promote serious reform, it is crucial that Congress manifest that work requirements are serious, and also that it is possible to meet them," he said. "I fear that the new stipulations are not credible as they stand. They call for participation rates never before realized except in a few localities, yet they provide no specific funding or program comparable to JOBS [the Job Opportunities and Basic Skills program] to realize them. The demands made look excessive, but it is also doubtful whether Congress really means to enforce them." Imagine that: a bill that claims to be historic whose work requirements are essentially rhetorical.

If Congress wants a welfare "reform" that will do little to encourage work while endangering the basic systems of support for poor children, this bill is just the ticket. But that's a strange place for a "revolutionary" Congress to end up.

—THE WASHINGTON POST

Winter Wonderland

The sanitation workers of New York City labor under a dual ideology. By summer they are unmoved garbage removers, who periodically get photographed spilling trash from litter baskets onto the street, or looking unproductive during work hours. Then the snow comes, and they become the heroic sanitation crews who labor all night so that their fellow New Yorkers may commute in safety.

"To our guys, the snow is like a robbery in progress for a cop — the adrenaline starts pumping," said Sanitation Commissioner John Doherty, one of the few top city officials who worked his way up through the ranks of his department.

New Yorkers wait for a chance to shine, and snow always creates new stars. Homeless men become the most popular people on the block if they volunteer to clear sidewalks and dig out cars.

"The first rule is to take good care of your tools," one said as he parted a dented shovel and a piece of wood used for scraping off windshields.

If the storm is bad enough, the mayor will drop by the sanitation garages to speed the hero plowpeople on their way. All New York politicians believe that city

residents, who accept endless abuse on all other matters, will not forgive a street left unplowed for more than a few hours.

"They see snow, they have a conviction — get it off quick," says Mr. Doherty. "They want to see that asphalt."

Before the first flake hit the ground last Wednesday, New York had already enjoyed its ritual angst over the size of the snow-removal appropriation (too low) and the state of the salt supply (OK for now).

The salt comes mainly from overseas these days, from Chile and sometimes Italy. During the endless blizzards two winters ago, the Chilean salt miners became heroes themselves, as the city nervously watched its salt pile begin to dwindle and the sanitation commissioner promised to be at the dock to greet boats from South America with a fresh shipment.

The workers' moment of glory will be short-lived. Once they have saved the day and kept the streets open, they will be back to plow more snow onto cars that have just been swept clean by their owners. "We've never figured out a way of preventing that," said Mr. Doherty.

—THE NEW YORK TIMES

Other Comment

A Solution for Sri Lanka

You don't have to be a fan of Sri Lanka's government to welcome its retaking of Jaffna. When the army raised the national flag over Jaffna Fort earlier this month, it marked the first time government troops had dared set foot in the city, the de facto capital city of the Liberation Tigers of Tamil Eelam, in five years. It was a hard-bought victory: Government officials estimate that almost 2,000 Tigers and some 500 government soldiers were killed in the 47-day offensive. The question now is where Sri Lanka goes from here.

We have no crystal ball, but we can offer some criteria. Ever since the government offensive began, its critics have been crying that Sri Lanka's problems require a

political solution, not a military one. And true enough, if the Sinhalese majority and roughly 18 percent Tamil minority are ever to live together in any kind of peace, it will require some kind of political accommodation. The brutal fact, however, is that a government unable to fly its own flag on its own land is in no position to negotiate, let alone enforce, such a peace. The Tigers themselves understood this when they unilaterally rejected a generous settlement and pulled out of peace negotiations back in April. ... The point is that there can be no political solution in Sri Lanka so long as the Tigers are part of the equation, for the simple reason that the Tigers do not want a political solution.

—Far Eastern Economic Review (Hong Kong)

In This Year's Balkan Winter, Gifts of Peace for All

By William Pfaff

PARIS — Christmas in snowy Bosnia is not the stuff of holiday dreams, but the deployment of NATO forces there has provided an American and allied Christmas gift not only to the people of the former Yugoslavia but to all of us.

The gift to the people of Bosnia, Serbia and Croatia is peace, admittedly precarious. The gift to the rest of us is the lesson that peace has to be made. It is not produced by muddled, avowedly impartial, international interventions, or by well-meant exhortations to dialogue, delivered to people who have nothing to say to one another.

The Western European governments, leading the UN effort to deal with the war, tried all that for four years. Many in those governments, and many commentators, still refuse to admit that peace will be preserved only by creating a balance of power among Bosnia's three communities. They still think that Serbs and Croats should (indeed can) be disarmed, and that impartial diplomacy could cajole or jolly the parties into being reasonable.

Those who believe this have fallen into a philosophical and political error described many years ago by the writer and poet Charles Péguy as keeping clean hands by having no hands. It was not the clean-handed approach that has bestowed an undeniably flawed peace on Bosnia.

I was myself told last week, by one of the French generals formerly commanding the UN Protection Force in ex-Yugoslavia, that it was "scandalous" to defend arming the Bosnian government. This, he said, would make any new war there worse than the one that has just ended; it would, as France's former president, François Mitterrand, said at the beginning of the war, only "add war to war."

That undoubtedly is a risk. But I believe in the utility of deterrence and power balance. I would have thought France's current nuclear tests in the South Pacific a demonstration that French military authorities also believe in deterrence. The beginning of the end of the war in Bosnia took place last summer on the day when the French government, confronted with the Bosnian Serbs' seizure of UN hostages, ordered its soldiers in Sarajevo to retake a position from which the Serbs had ousted them. They did so. For the first time the "international community" had fought back.

There is another persisting illusion, this one among Americans who are determined to see what NATO has undertaken in Bosnia as "nation-building." Friends and

enemies of intervention share this illusion. Those for the troop deployment warn that a year's occupation of Bosnia is not long enough to do the nation-building job and so cannot prevent the war's renewal.

Those opposed talk about nation-building "quagmires" and cite the dismal precedents of Somalia and Vietnam — as if Somalia is, or was ever, a nation, and as if what the United States was doing in Vietnam was nation-building rather than an effort to block the Vietnamese from building, or rebuilding, their own nation the way they wanted it.

Serbia and Croatia were nations in the cultural sense when North America was a wilderness. Bosnia's Muslims are descended from the rulers and administrators of one of the most important empires in history, the Ottoman, which lasted from the 14th century until World War I. None of them need American advice on building a nation. Their recent war may be said to have come from an excess of nation-building.

Peace is made by acts. The West has for a half-century enjoyed the immense good fortune of domestic political stability rooted in civilized values and practices. This is because the Allied powers won a world war that had erupted in Europe. Europe, like it or not, has been and remains the place where modern history is generated.

The 70-year reign of Bolshevism in Russia came as the result of a European idea, that of Karl Marx. It came to an end because the elites ruling Russia and the because the Soviet bloc were literally demoralized by the influence of Western civil order and prosperity. The communist order between their society and civil society in North America and Western Europe proved in the end to be insupportable. "Europe seemed a dream, a utopia," according to a Romanian intellectual of the 1980s. Communism did not come to an end because Ronald Reagan frightened the West's political civilization destroyed it.

The crucial outrage of the war in Yugoslavia is that it was an attack on civilization. This year's is a far better Christmas and New Year than last year's because civilization has been defended. The abrasive and dynamic Richard Holbrooke makes an implausible simulacrum of Santa, forcing peace on sullen Bosnian leaders. But as a result there are carols to be sung in Sarajevo and Zagreb, and even in Belgrade and Banja Luka. Mr. Holbrooke is my man of the year. I might even run him for president, if I could. Now that would make the New Year interesting!

International Herald Tribune
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The West Has Yet to Learn Its Lessons on How the War Began

By A. M. Rosenthal

NEW YORK — From Bosnia and Washington now come almost daily official reports on how the Western powers will learn and profit from the military history of the years when the United Nations tried to keep a nonexistent peace.

But one essential report never comes from Western officials: how we can learn and profit from the political history that brought about the war in the first place.

In that history lie the answers on how another Bosnia could be avoided. Yet not one civilian leader talks about that history and what is to be learned from it. They do not dare.

The politicians and diplomats of the West who shaped the history through their own errors and failures are still in office. To examine the past few years with honesty would damage them, and this they will not consider. Four times before the Bosnian war, the European Community received direct warnings that they were about to make it in-

evitable. Three of them came from representatives of the United Nations — the then-secretary general, Javier Pérez de Cuellar; Lord Carrington of Britain; and Cyrus Vance, former secretary of state of the United States. The fourth came from the man who is now president of Bosnia, Alija Izetbegovic.

The warnings were to go slow. The West was told not to submit to Germany's imperious demand for quick recognition of Croatia, its World War II ally, which had broken away from the collapsing Yugoslavia. If the West did, the Bosnian Muslims would be forced to declare an independent Bosnia quickly. One-third of Bosnia's people — its Serbs — would fight rather than be forced into this newly created Bosnia, where they would feel denationalized and controlled by Muslims and Croats they feared.

The Europeans, with the United States trotting along, ignored the warnings, or the alternative of the de facto partition that is the end result of the war. War came. Two hundred thousand people died. About a million were forced out of their homes and villages. Now Americans have landed in Bosnia, something the United States never dreamed of when it recognized the new nation.

What have we learned? Until we face the question, the answer is "nothing." What could we learn if we do?

For one thing, before recognizing a new country, find out if the would-be government is in control of the territory it claims. If not, delay recognition and encourage concessions to the opposing side — or be ready to go in and fight for the new regime. The Bosnian Muslims came to count on outside help to establish control of the country — a grievous error. The lesson for people who

want independence is to make concessions that will persuade powerful minorities to live under your roof, let them go their way, or be prepared to fight alone.

Americans can learn that the use of air power leads to the use of ground power. Believe that — not politicians, military men or journalistic bombardiers who assure you otherwise.

And Americans can learn that the North Atlantic Treaty Organization has changed. It is supposed to bind its members to mutual protection against attack — its members, not the whole world. Now NATO is sending heavy forces into a war that did not involve an attack on any member, or a direct military threat.

Maybe Americans are thrilled at the change, maybe not. Neither the Republicans nor the White House has spelled out the consequences. Why should they, when Americans do not demand it?

In the Bosnian field, the best weapon American commanders

have is their own realization that no matter what officials back home pretend, this is not an attempt to "keep" a peace. It is a powerful military operation to enforce a peace that may or may not come about as a result of a treaty demanded by the United States as the condition for ceasing its troops.

That realization is the difference between sitting waiting to be attacked, as the UN command did, and acting as commanders are supposed to act: when in danger, strike first.

The forces entrusted to them will be the stronger and safer for the military lessons their commanders learned from the past and the clarity of mind that goes with it.

But the people of the United States and Europe will one day suffer from the refusal of their governments to face the history and lessons of Bosnia — and their own failure to demand an accounting.

The New York Times

Expanding Talks Beyond Golan Holds Hope for Israel-Syria Deal

By Shai Feldman

CAMBRIDGE, Massachusetts

—The new round of Israeli-Syrian talks scheduled to begin in Washington on Wednesday may lead to the first significant breakthrough in these four-year-old negotiations. The resumption of these negotiations is accompanied by unprecedented Israeli and Syrian expressions of optimism. The most astonishing was a two-page tourist guide to Syria published last week by Yediot Ahronoth, Israel's largest-circulation newspaper.

The government-run Syrian media has changed its tune regarding the prospects for peace with Israel. Prime Minister Shimon Peres was praised for the tone and substance of his recent statements, and commentators in Damascus assessed the chances of a Syrian-Israeli deal as better than ever.

These new expressions of hope cannot be ascribed to any substantive or procedural change in Syria's positions. So far, President Hafez Assad continues to reject a face-to-face meeting with the Israeli prime minister, and the same Syrian commentators who express optimism also make it clear that President Assad has not backed away from any of Syria's demands. He still insists on total Israeli withdrawal from the Golan Heights and rejects any possibility of Israel's continued operation of early-warning stations there, even on a reciprocal basis.

Instead, the new sense of optimism seems to be based on a growing appreciation of Prime Minister Shimon Peres's innovative approach to the Israeli-Syrian negotiations. During the tenure of

Yitzhak Rabin, Mr. Peres on more than one occasion expressed his impatience with the slow pace of discussions with Syria. Indeed, he seems to have concluded that deadlock was inevitable as long as the talks focused exclusively on the future of the Golan Heights. In such discussions, Syria was bound to demand a complete Israeli withdrawal to the pre-1967 borders, while Israeli leaders could not accept even a lesser retreat to the international border, except in exchange for "real peace" and the implementation of wide-ranging security arrangements.

Yet "real peace" — understood by Israelis to imply relations similar to those between the United States and Canada — remains anathema to Syria's leadership. Faced with this stalemate, Mr. Peres seems to be proposing a dramatic transformation of the Israeli-Syrian discourse by placing the Golan Heights issue in a wider context. In his view, the limitations on what Israel can expect from Syria directly could be com-

Commentary is surprisingly upbeat.

First, given almost two decades of peace between Israel and Egypt, a year-old Israeli-Jordanian treaty and the continued implementation of the Israeli-PLO accord, an Israeli-Syrian agreement (leading to a similar deal with Lebanon) would end the Arab-Israeli conflict. That is, tensions between Israel and one or more of the Arab states might arise from time to time, but the Arab-Israeli conflict would no longer be an organizing principle and a central feature of Middle East politics.

In addition, an Israeli-Syrian agreement would signal to the Arab world that peace with Israel has become the accepted norm. This is expected to lead a large number of Arab and Muslim "fence-sitting" states, which have expressed growing interest in diplomatic and trade relations with Israel, to realize such relations are legitimate. Thus, imperfect "normalization" with Syria would be enhanced by intensive interactions with other states in the region.

penated for with a number of strategic advantages entailed in an Israeli-Syrian deal.

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1920: Holiday Spirits

BOSTON — Nire cocktails, as a substitute for the once popular Bronx, have come into favor since the advent of Prohibition, according to information given out by William S. Briry, director of registration in the State Department of Drug Control. He said the department has noticed a tremendous increase in the sale of

Equally important, the end of the Arab-Israeli conflict would deprive Iran and Iraq — the only significant remaining sources of danger in the region — of a political context within which they continue to challenge Israel. By ending Syria's isolation and leading to improved relations with Europe and the United States, the agreement would also undermine the rationale of the limited Syrian-Iranian partnership.

In turn, the end of this partnership and the end of Syria's need to maintain constant, indirect pressure on Israel would also motivate Damascus to stop Hezbollah terrorism in southern Lebanon. The only remaining arena of continuing Arab-Israeli violence would thus be closed.

For thousands of Israeli families whose children currently serve along Israel's northern border, ending the war of attrition in southern Lebanon may be more important than the ability to shop in the Damascus bazaars.

By placing Israeli-Syrian talks in a wider context, Prime Minister Peres hopes to overcome the stalemate in negotiations over the future of the Golan Heights. The current wave of optimism on the prospects of these talks suggests that Israelis and Syrians are willing to give the creative Peres approach its well-deserved chance.

The writer is a senior research fellow at Harvard University's Center for Science and International Affairs. He contributed this comment to the International Herald Tribune.

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1895: White Christmas?

LONDON — Yesterday [Dec. 22] was cold enough to lead people to suppose that Christmas, after all, may be celebrated with seasonal atmospheric effects. A bitterly cold north-east wind swept over the town all day, and in the early morning there were plentiful signs of frost in the streets. Towards evening, it became milder and at midnight the mercury had risen to 39deg. Fahr., dashing the hopes of those who would have preferred a bit of snow for the holiday.

1945: Parties in Paris

PARIS — The first Christmas of peace in Paris in seven years will be celebrated here with a multitude of community fairs for children, a wealth of church services, Army and civilian, and a number of musical recitals. A gargantuan Christmas party will be held at the Olympia Theater for 1,000 Paris orphans today [Dec. 23]. The United States Army will play host. The small French guests, assembled around a Christmas tree, will hear a U.S. Army orchestra, see several vaudeville acts, movie cartoons, and be handed candy bars and apples after the two-hour entertainment program. Special Services is furnishing the children's toys.

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5 in Crew Set Free By North Koreans

SEOUL — North Korea said Friday it would release as a peace gesture the five surviving crew members of a South Korean trawler seized in May, defusing a dispute between the two Koreas at a time of heightened military tension.

The vessel, *Woosung*, strayed into North Korean waters after being released from Chinese custody for illegal fishing. Pyongyang's official Korean Central News Agency said the crew had committed "grave crimes" and should have been punished.

"But all the crewmen frankly admitted and made an apology for their crimes and requested a competent organ to leniently forgive them," the agency said.

Forgiving the crew was "an expression of our warm feelings toward the South Korean people and a manifestation of our consistent peace stand for national reconciliation and peace of the country," according to the report, monitored in Tokyo.

It said the boat would not be handed back.

South Korea has repeatedly demanded the return of the trawler and crew, and the incident contributed to a deterioration of relations between Seoul and Pyongyang.

Pyongyang's failure to comply was seen as especially provocative after Seoul started shipping free rice to the North on humanitarian grounds following floods that ruined the grain crop.

The report said the cremated remains of two crew members shot and killed during the capture would be returned along with the remains of a third sailor who died of illness.

The surviving five crewmen would be sent home through Panmunjom on Dec. 26 to allow them to spend the New Year with their families, it said.

Panmunjom is the only crossing point along the fortified Demilitarized Zone that has divided the Korean Peninsula since the 1950-53 Korean War. South Korean authorities have said the North could take advantage of political turmoil in the South to make mischief.

Israelis Not Invited as Bethlehem Sets Festivities

BETHLEHEM, West Bank — Church bells and Muslim calls to prayer rang out over Bethlehem's Manger Square on Friday as Palestinians celebrated their first day of freedom under self-rule.

Drivers smiled and joked with policemen in spotless new uniforms directing traffic by the Church of the Nativity, the traditional birthplace of Jesus.

Mayor Elias Freij pushed for peace when the idea was not so popular. But after Israeli troops finally left his town, he ruefully admitted that the hitherto they leave behind will take time to subside.

Israeli officials, he suggested, are not necessarily welcome at the first Palestinian-run Christmas festivities starting Sunday night.

"For 28 years, Israelis were represented here by their military governors," said Mr.

Freij, who also is the tourism minister in Yasser Arafat's Palestinian Authority. "Maybe in three years we'll invite them."

Mr. Freij said Friday that Israeli tourists were welcome in Bethlehem as long as they were unarmed. To prevent conflicts, however, the Israeli Army announced that it would bar Israelis from entering Bethlehem through Sunday, Christmas Eve. It is army practice to keep Israelis out of PLO-ruled areas in the first few days after the handover of power.

Foreign tourists, however, will not be barred.

The Palestinian self-rule government took control Thursday of the biblical town, 8 kilometers (5 miles) south of Jerusalem. In a cacophony of church bells, gunfire and cheering crowds, the last Israeli troops withdrew and more than 850 Palestinian police took up positions. Bethlehem thus became the sixth

West Bank town, in addition to the Gaza Strip, to come under Palestinian control as part of the autonomy accord between Israel and the Palestine Liberation Organization. Ramallah and much of Hebron also will be transferred before Palestinian elections Jan. 20.

Mr. Arafat plans to deliver a Christmas Eve speech from the roof of the Church of the Nativity to a crowd expected to number in the tens of thousands. He arrives on Saturday afternoon with his wife, Suha, and their baby daughter, Zahwa.

It will be Mr. Arafat's first visit to Bethlehem since he made peace with Israel and became leader of the Palestinian autonomy government. Mr. Freij said no other world leaders, including, pointedly, Prime Minister Shimon Peres of Israel, were invited to the festivities.

Although Muslims outnumber Christians in the town by 35,000 to 15,000, the Christmas celebrations this year are expected to be a manifestation of all Palestinians' national aspirations.

While the party mood lingered after the troop withdrawal, residents worried that by barring their entry to work in nearby Jerusalem, Israel was still controlling their lives. And Bethlehem Christians voiced hope that Muslim-dominated Palestinian authorities would treat them as equals.

Thousands of Bethlehem residents used to cross into Jerusalem to work as laborers before Israel imposed restrictions on Palestinians entering the city.

"Now we have freedom to walk our streets without fear," said Abdallah Abu Sneh, sweeping away the rubbish left by Thursday night's revelries. "But they shut the door to Jerusalem."

TOYS: A Mating Game

Continued from Page 1

jokes. He has to laugh before you hang up."

"Would you ever marry someone for money?"

A player who does not want to answer or perform gets a "Zi Söcker," a red dot she must stick on her face. The winning player gets to read her Girl Talk Girl Cards, which each player gives to the girl she thinks matches the description on the card: "Bubbly personality," "Loves to gossip," "Wiggles when she walks."

"I hate these games," said John Mueller, a doctor, who was shopping for his two daughters and two sons at a Toys 'R' Us store in Virginia last week. "I find them stereotyping, sexist, frivolous and they emphasize traits not beneficial to their long-term development. And yes, my daughters love them."

His older daughter was given Girl Talk when she was 10, he said, and she enjoyed it.

"Sadly, there is a market for these games," said Elizabeth Fox-Genovese, author of "Feminism Is Not the Story of My Life: How Today's Feminist Elite Has Lost Touch With the Real Concerns of Women" and founder of the women's studies program at Emory University.

"We do know that little girls like clothes, like to appeal to men, and they have a different take on all that kind of thing than young men do. I'm afraid the market is a good barometer."

"But I don't see why we assume this poisons them," she added. "It doesn't preclude them from doing well in school, or playing soccer, which they also do."



HOME WITH A TREASURED TREE — A man in Bucharest walking home Friday with a Christmas tree, which in Romania can cost \$20, about a week's wages.

WORKSHOP: Santa's Is in Southern China

Continued from Page 1

One of the elves there is Yu Zhongnan, a 25-year-old assembly line supervisor. Like other migrants who are recruited by provincial governments in poor areas like Sichuan, Hunan and Jiangxi, she says that "you can earn more money here, and see different things."

More is a relative term. The average wage in this factory is \$75 to \$85 a month, one eighth as much as the average worker in Hong Kong earns and not much more than an American teenager could earn shoveling snow for a couple of days.

But the workers can save money to send home and still treat themselves to occasional entertainment they could not find in rural areas. All four children in Ms. Yu's family migrated from Jiangxi Province to Shenzhen to find work. Her sister returned home to get married, but her two brothers still work nearby. Ms. Yu started working five years ago on the assembly line, where the typical worker can put small touches on up to 2,000 toys a day. Now, after several promotions and working six days a week, she earns \$120 a month. She shares a dormitory room with five other people.

At times the job of being a Santa's helper can be a dangerous one. Two years ago, a faulty fuse sparked a fire in a Shenzhen toy factory (not one of Mr. Ting's) that killed 87 workers who had been locked inside because the owners were worried that the workers might steal some of the toys.

Chinese authorities later jailed the Hong Kong factory owner, a Chinese director, and two fire officials who accepted bribes to overlook hazards during inspections.

In Thailand in May 1993, a fire killed 188 workers and injured hundreds more in a plant on the outskirts of Bangkok that was half-owned by Mr. Ting's Kader Holdings. The death toll far exceeded that of the shirt factory fire in New York that helped focus attention on dangerous conditions at American sweatshops early this century.

Mr. Ting said the company has taken measures to prevent a repeat of the Bangkok disaster. The factory doors are open. Air conditioners and ventilating equipment suck paint fumes out of the spray paint shop. Once a month, the factory holds a fire drill.

As for living standards, Mr. Ting said they were simple, but "decent."

"The quality of living standards are different from one place to another," he said, adding that many migrants come from areas so poor, they do not know what a toilet bowl is. "One girl used the toilet bowl to wash her clothes," he said.

Many of the rules at the Qalidux plant are dictated by customers, who have different safety standards.

McDonald's demands that the factory "girls," as Mr. Ting calls them, wear hair caps and wash their hands every two hours with detergent supplied by McDonald's. Fischer-Price wants its toys dropped in 14 different ways from heights of 54 inches to 62 inches, well in excess of U.S. government standards.

To make sure toys are not damaged in shipping, the company also puts them in a freezer and bakes them in an oven to see how the quality and color hold up. One machine simulates a moving truck, shaking the toy around inside a box.

Virtually all of the toys made in this region are made for export, but a Chinese market for toys is gathering steam.

With families limited to one or two children and with a high savings rate, China would seem like fertile ground for toy-makers. "If every Chinese spent \$1 on toys," Mr. Miller said, "then China would be the world's seventh-largest toy market."

Already many Chinese exchange cards and gifts at Christmas; the holiday provides a good excuse to give gifts. The toy department of stores on Beijing's fashionable Wangfujing street have been jammed with shoppers as the holiday approaches.

American marketers are trying to break into China, but it's slow going.

Only 2 percent of Qalidux products remain in China, Mr. Ting said he worked with a company called Good Baby that has a national distribution network of 3,000 outlets. "Even they are having teething problems," Mr. Ting said, because of China's bureaucratic wholesale and transportation systems. In addition, Mr. Ting said, "Within China, they still feel that if the middle man makes money, maybe this is a crime."

For Charles, A Message Of Support From Camilla

LONDON — Prince Charles's decision to choose the crown over marriage means Camilla Parker Bowles will never be queen, but she is reported to have vowed to stand by her man.

The Sun newspaper, which this week broke the news of the divorce negotiations at Buckingham Palace, on Friday quoted Mrs. Parker Bowles, Charles's longtime love, as telling the prince: "I will stand by you always, my darling. There is a conflict between the individual and the institution — and in this case the institution must win."

Mrs. Parker Bowles's reported comments came a day after Charles ruled out remarrying should Diana, the Princess of Wales, consent to a divorce, as requested by Queen Elizabeth II.

If the princess does not agree to divorce, British law mandates a five-year separation, forcing Prince Charles to wait for two more years for dissolution. And her closest confidante in the press says she is determined there will be no divorce until her future status is assured.

Queen Elizabeth II and Charles have already laid their cards on the table. The queen said this week she wanted the couple to divorce after three years of turbulent separation. Charles said he agreed with his mother.

This stirred much speculation about whether Charles could someday be crowned along with Mrs. Parker Bowles, who was herself divorced earlier in January.

But Charles sought to quash this talk by saying he had no plans to marry again — a remarriage would not sit well with the Church of England, whose temporal head he would be as king.

Whether Charles is fed up with the institution of marriage, or simply wants to curry favor with the public, is unclear. The British public apparently has little affection for Mrs. Parker Bowles, the "other woman" in the case, reserving its sympathy for Diana.

Diana has yet to reply to the queen's intervention, aside from letting it be known that her lawyers were out of town until early next year.

But the Daily Mail's royal correspondent, Richard Kay, whom Diana has often used to get her views out, had an article Friday saying the Princess wanted to avoid being rushed into an unacceptable settlement. "She is prepared to hold out for as long as it takes," Mr. Kay wrote. (Reuters, AP)

FRANCE: Labor Summit Fails to Resolve Issues

Continued from Page 1

pect strong enough growth in 1997 — roughly 3 percent — to meet the criteria for a single European currency in 1999.

But the "downside risk is the immediate future because it is hard to know how badly consumer confidence has been hit," according to Paul Horne, the firm's top Paris-based analyst.

In the longer run, he said, French business will benefit from the interest-rate cuts that started two weeks ago and seem set to continue — if consumer confidence can be restored.

For the short run, the Juppé

team has offered a package of suggestions about boosting employment and increasing people's purchasing power. But most French leaders say bolder initiatives are needed to jolt the nation out of its mood of uncertainty and pervasive gloom.

The proposals, described as "a meager Christmas present" by Jean Gandois, the business participant, centered on channeling money into consumer spending, mainly by offering tax incentives to people who want to take their money out of savings plans, including money-market funds.

Most union leaders reacted negatively, with one saying that

the discussions were "surrealistic" because they were so remote from the doubts and fears voiced in France. Louis Vianet, head of the General Confederation of Labor, the Communist-led union that spearheaded the railroad strikes, said that public opinion would render "a very severe verdict."

He did not specifically threaten a resumption of strike action, but his union succeeded in paralyzing France's state-owned rail system, together with city subways, and making the government back off its plan to change railroad workers' pensions.

Meanwhile, the struggle to control the new Russia rages. Mr. Soros explained, surrounded in his New York office by the totems of his political connections and far-flung interests: photographs of his meeting with President Bill Clinton; East European art purchased to support artists in the region; and books, mostly his own, like

SOROS: The Financier, in a Switch, Is Again Wagering His Money on Russia's Future

Continued from Page 1

panies, Russia's economic establishment has no interest in returning to a Soviet-style command economy. But much of the new elite is equally fearful of plunging into the rough and tumble of real competition.

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"Soros on Soros," a collection of his observations on life, politics and philosophy. "Entire companies have been ripped off and either appropriated or bought in the privatization process, and now we have come to the point where there is the ultimate plum and that is the state," he said. "So now there is the question of who is going to grab the state and that is the big political game that is going on in Russia."

The political battle in Russia has been generally portrayed as a struggle among rival parties and competing ideologies. But underlying the political power struggle, Mr. Soros sees a clash

of economic interests between two major groups: energy and raw material producers and energy consumers.

The first group includes the gas and oil industry and its government supporters, including Prime Minister Viktor S. Chernomyrdin. Its resources can be readily sold abroad for world market prices, making it somewhat more open to reform.

The consumers include the military-industrial complex and industrial enterprises. They are fearful of competition, long for state subsidies and want energy and resource prices set artificially low. And they are winning, Mr. Soros said.

Xenophobic rhetoric by the Communists and nationalist groups about the need to protect Russia from exploitative foreigners is intended to provide an ideological justification for keeping the markets closed and protecting the energy and resource consumers, he said.

"The Communists are just another gang. They also want to grab the assets," he said. "It's a question of how you redistribute the pie."

Given all this, why then is Mr. Soros still keeping his hand in Russia? His foundation there spent \$25.8 million in 1994 printing textbooks, helping Russian journalists, helping li-

braries and carrying out other reforms. He has already spent more than \$100 million trying to help support former Soviet scientists.

Mr. Soros, an associate said, is fearful of what will happen if the West gives up on Russia.

And with its immense natural resources, educated pool of talent and often low-cost assets, Russia still remains enough of a lure for Mr. Soros that he is making a limited investment there despite the considerable political risks.

Currently, Mr. Soros explained, some key assets are undervalued. "It is all a question of timing," he said.

BRIEFLY ASIA

Death Sentence in Ferry Robbery

HONG KONG — A Chinese court on Friday sentenced to death Chen Wenjian for hijacking a high-speed ferry and stealing \$1.3 million in cash, a newspaper reported.

The hydrofoil was carrying more than 130 people and the shipment of currency from the Portuguese colony of Macao to Hong Kong in June when three men drew guns and fired warning shots.

One accomplice, Zhang Shaojian, also was sentenced to death, but with a two-year reprieve, the New Evening Post said. It said his sentence could be commuted to life imprisonment. Another accomplice, Zhou Hanlian, was sentenced to life imprisonment, the newspaper said. (AP)

Cult Leader's Lawyer Questioned

TOKYO — Prosecutors on Friday began questioning a lawyer who was fired by the jailed cult leader Shoko Asahara after a magazine published what it said was Mr. Asahara's explanation to investigators of the death of a follower.

Mr. Asahara, founder of the doomsday sect Aum Shinrikyo, is accused of masterminding the nerve-gas attack on the Tokyo subway system that killed 12 people and injured 5,500.

The magazine Gendai said Mr. Asahara told investigators that he had instructed his private doctor, Tomomasa Nakagawa, to punish the follower for disobeying the sect's teachings, and that the follower had accidentally died. Mr. Asahara's reported statement contradicts that of Dr. Nakagawa, who has said he murdered the follower on Mr. Asahara's orders.

The lawyer, Shoji Yokoyama, admitted that he had given the magazine Mr. Asahara's account of the death. (AP)

Family-Planning Switch in India

NEW DELHI — India will end a much-criticized family planning program that sets targets for birth control and will focus instead on voluntary schemes, a United Nations Population Fund official said Friday.

"The government of India plans to remove quotas and targets on a countrywide basis from April 1, 1996," the UN group's executive director, Nafis Sadik, said. The aim is to make birth control programs more responsive to women's needs. "You get things done when people actually accept the concept," she said. (Reuters)

VIETNAM: Meet Dr. Bricklayer

Continued from Page 1

corrected soon, we are likely to have serious problems."

This fall the National Assembly was warned that the brain drain could impede the country's economic development by wasting its educated on menial jobs or losing them to foreign companies. An official urged the government to invest more money in research as a way to keep scientists interested in working for universities.

But Mr. Ha complained that so far, efforts to halt the brain drain have been cosmetic and ineffectual. Earlier this year, for example, the country gave awards to students who excelled in technological studies.

"Someone from the Foreign Language College with even average knowledge can earn \$200 a month working for a foreign company," Mr. Ha

said. "But if you are an engineer, you are lucky to get \$40, even if you have a hundred of those awards."

That reality is causing anxiety for many recent college graduates. More than half the population is under the age of 20, so pressures on the job market are going to become more severe.

Young people are discovering that a market economy means higher salaries in business, not academics. Applications for medical school, engineering and the sciences are down. Popular subjects today are foreign languages, especially English, and computers, business and economics.

"Vietnamese doctors cannot be really rich," said Pham Gia Khai, 59, a medical school teacher here. "You must go into business to be really rich. Young people today are different. They think only about money."

CRASH: Amazing Andean Tale

Continued from Page 1

Miami-Cal flight, the Colombian Consulate said.

Four people were at Hospital Universitario in Cali. Dr. Reme Espinosa said, including Gonzalo and Michelle Dussan and Mauricio Reyes. The fourth was a woman, Mercedes Ramirez, of Blue Springs, Missouri. Rescuers also found a dog that had survived the crash.

Rescue workers used helicopters to reach the remote, forested crash site. Amid the grisly sight of pieces of flesh,

some so small as to be almost unrecognizable as human, they also found dolls belonging to young victims.

Investigators helping in the search held out little hope of finding anyone else alive. Among other evidence, they recovered the "black box" recorder of flight data.

By the time they reached the wreck, local farmers had pilfered the belongings of the dead.

"The peasants are taking stuff away in bags," said Juan Carlos Millan, an aide to the Cali prosecutor. (AP, NYT, Reuters)

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Mysterious Faces From the Egyptian Desert

NEW YORK — Their eyes transfixed the viewer with their burning intensity, "The Mysterious Fayum Portraits," as Euphrosyne Dokiadis calls them in her book just published by Harry N. Abrams, build up the most compelling pageant of faces from the ancient world.

Indeed, they are the only painted portraits that have come down to us from Antiquity, thanks to the dryness of the Egyptian desert.

Some are so extraordinary that it makes one wonder why it took so long for the art to be acknowledged as such in book form. When the first portraits in encaustic on panel turned up at the hands of the Viennese dealer Theodore Graf in 1887, they were found so surprising in their anticipation of West European painting 1,500 years later, that they were thought to be forgeries.

Then came the massive discovery of a cache of mummies made by Flinders Petrie in 1888 at Hawara with the portraits still in place at the top of sarcophagi enclosing mummies. The authenticity of the genre could no longer be held in doubt. Discoveries continued, scholars wrote articles, and collectors and museums pounced on what was up for grabs. But still the Fayum portraits remained outside Art History, spelled with capital letters. To this day, they are barely looked at other than as curiosities, and few are on view in the world's great museums where most, including some masterpieces, are under wraps.

The reason is partly to be sought in the enigmas that surround this art. The complexity of its development has yet to be convincingly charted. Above all, this is the art of a society that was wiped out — and although the fact is never publicly admitted, we make short shrift of the great works of vanished cultures unless they are exotic.

These are not. The Fayum faces look astonishingly familiar — and moving. Two of the earliest known portraits show a man and a woman whose mummies were found buried together, as part of a larger group burial. Painted three quarters with their eyes turned full front to look at the viewer, they are like a diptych when seen side by side.

SOURIN MELIKIAN

Only the faces and part of the neck are visible, framed by the thin strips of linen intricately woven so as to form a rhomboidal opening. The red flush on the man's cheeks, the dark gleam in the eyes, the thick lips pressed in an expression of muted resignation, make it a portrait as great as anything conceived by 17th-century Dutch artists. The woman's small oval face with high cheekbones is dainty and the look of anguished query in her eyes makes her seem frail still. A Greek inscription identifies her as Hermione Grammatike, "the school teacher."

Were these father and daughter, killed in some catastrophe? The man was painted when in his 30s at the most, but buried at an advanced age, as several X-ray examinations have revealed. The young woman died when she was about 25, with bones so small and so brittle that all the radiologists remarked on the fact.

Some portraits have a harsh directness that is unlike anything known from ancient art. One of the more astonishing discoveries made by Dokiadis, a painter in her own right who chose these works with the intimate understanding of the practitioner, is the small portrait of a man with green eyes in the Manchester Museum. With its vigorous brush strokes, quickly applied, and the quiet brightness that exudes from the face, it anticipates the realist school in mid-19th-century France.

An even more curious parallel is called for concerning the portrait of a woman painted on linen in crisscross strokes. These irresistibly call to mind the effect sought by 18th-century draftsmen working in black and red chalk heightened with white. Her serene, slightly imperious face, seems about to give a smile.

Combined with the short hairdo and the black curls framing the face, this gives the picture an uncanny resemblance to some late 18th-century or early 19th-century Neoclassical portraits.

The ultimate masterpiece is the likeness of a woman in the British Museum that Dokiadis says, when commenting on "the breathtaking colors and sensuous impasto," is worthy of the great Venetians. The merest flicker of a smile hovers on her lips and gentle yet penetrating eyes. They give the feeling that it is impossible to fathom them to their full depth. If there is such a thing as a Fayum Leonardo, this is it.

Who were these people? Dokiadis calls them Greeks and assumes that these paintings, some of which are so accomplished in the accurate rendition of the human face, incorporate the legacy of the famed school of Alexandria. Undoubtedly, there is some formal resemblance between the more polished Fayum characters and a famous double portrait, probably the work of a Greek artist, that survived on the wall of a villa in Pompeii.

What escapes us is what these pictures really meant to those who did them, or those who looked at them. If Greek, the characters who sat to be portrayed had thoroughly succumbed to the Egyptian creeds. The likeness of a man identified by a terse inscription in Greek capitals, "Farewell Artemidoros," at the top of a wooden casing is associated with scenes carved on the sarcophagus which look like low reliefs taken down from the walls of an ancient Egyptian shrine.

How the idea of inserting the likenesses of the deceased into the sarcophagi came about remains unknown. No reference to these Fayum portraits has turned up in Greek literature. It is clear that some of the great portraits were done directly from life.

They were probably hung in houses at first — Petrie actually found a portrait, damaged but recognizable as such, still in its wooden frame. Some sarcophagi show signs of gradual wear. This persuaded Petrie that they had been exposed to the scrutiny of daily life in residential quarters for decades before being dispatched to their final resting place, once those to whom the dead were dear had themselves passed away. Only thus could Petrie account for the very rough burial of some of the mummies he discovered.

AN unsolved mystery is how Fayum funerary painting gave rise to early Coptic icons. The transition to Christianity was slow. Multiple forms of syncretism, in concepts as in rites, made it possible.

In the first half of the fourth century, Saint Anastasius condemned those who embalmed the bodies of patriarchs and prophets, which had survived to his day, "not burying them in the earth, but placing them on low beds and keeping them indoors near themselves."

Symbols were equally ambivalent. The vine associated with Jesus was also the symbol of Dionysus who, to Egyptians, was Osiris in hellenized garb. Through trial and error, the iconography of Christian Egypt was emerging. It was a long and tortuous process of metamorphosis to which the prelude was the art of the Fayum, now revealed in its full splendor thanks to the year's most ovel book, enhanced by outstanding color plates.



Fayum portrait of a young man in Manchester Museum.

Stalking the Masters With Lucian Freud

By Michael Kimmelman
New York Times Service

LONDON — It is past midnight, and Lucian Freud is walking through London's National Gallery, his steps reverberating in the vast, empty rooms. Having the museum to himself is a privilege that comes from being England's most prominent artist, a painter who has created some of the most potent and unflinching images of the human body in the late 20th century.

Add to this distinction his near obsession with privacy, and a schedule in which he paints each day until late into the evening. And here he is in the gallery in the middle of the night, with all the lights on and the run of the place.

He has been visiting it almost since he moved to England from Berlin as a boy in 1933. "I come for ideas and help — to look at situations within paintings, rather than paintings," he says.

He turned 73 this month and looks remarkably fit. Freud spends most of his time in the tumbledown attic rooms of his studio. He is so scrupulous about guarding his privacy that not even close friends have his phone number.

He rarely leaves London; his two-day trip to New York to see his retrospective at the Metropolitan Museum in 1993 was his only visit to the city since 1953. He lived on and off in Paris during the early 1950s but hasn't been back for 18 years.

Yet he is hardly a recluse. He is sociable, a regular at nightclubs, a raconteur, wry and highly amusing, blunt in his opinions, allergic to small talk, kind, even courtly in manner when he chooses to be. But he wants not to be interrupted, or to waste time while he is working, which

he almost always is. So he has granted almost no interviews.

The chance to talk about pictures in the National Gallery is something else, however. Freud settles first in front of the 18th-century English artist William Hogarth's series of paintings on the theme of marriage. By way of comparison, he admires another Hogarth, "The Shrimp Girl," a sketch from life as spontaneous and fresh as the marriage series is studied. He has mixed views of the series.

"It's lively, marvelous, informative, poignant, and I nearly put one of these paintings in my 'Artist's Eye' show," he says, referring to his 1986 National Gallery exhibition of some of his favorite works, including a Rubens, a Chardin, a Constable and a Seurat. "But I came to feel that the subject matter was dominant. What I mean is that with the best things, Rembrandts and Cézannes, every inch of a painting counts, so that if you take away a bit of a corner, let's say, the picture doesn't work any longer. Whereas here, the Hogarth depends on the story."

Freud's own paintings aren't narrative, precisely. They have to do with the plasticity of pigment simulating flesh. And they are about an evasive psychological inwardness, a sense of the otherness of objects and people, scrutinized like specimens under a hard, enveloping light.

Freud's paintings of figures are tough, impacted, unforgiving. He likes to talk about the truth of what he depicts, by which he means the truth of the human transaction between him and his models.

The Hogarth's lead him to point out Chardin's "Young Schoolmistress." "The feeling is true," he says. "Generally, when we talk about feeling we mean deep feeling. This isn't deep, but it is true. For me, it's also an erotic painting, maybe because it's so intimate. I prefer it to Vermeer, and I mention Vermeer because the people in Vermeer aren't humans. I don't mean they're subhuman, but they are objects governed by light. They're there for the picture. It's not a lack in Vermeer, precisely, but it is one of the

strange things about him, this way of treating humans."

He continues about the Chardin: "The work is too convincing to wonder how it was painted. I've looked at it very often, but I'd never really noticed this shadow before." Freud points to the cast by the schoolmistress's elbow. "Now I realize Chardin must have used burnt umber. But I had never, ever thought about this, because it's in the nature of his work that you don't question it. Even as a painter, I'm not technically aware of what he is doing, any more than you notice the vocal timbre of someone who is telling you something that is very important." Freud has made a similar point before, about Velázquez. He has quoted Ortega y Gasset's remark that Velázquez's "Meninas" "isn't art; it is life perpetuated."

HE settles next at the "Rokeby Venus," a few rooms away. He looks at it for a while, then says, "I hate angels, but the fact that these are chickens' wings tied on makes it fine by me." He gestures at the puny wings on the angel holding the mirror up to the reclining Venus.

"One of the many things fascinating about the picture is the ugliness of the woman's right arm yet how beautiful it is," Freud says. "It's completely wrong, it bypasses reason, yet it works as art. I think when you are painting, there are decisions you make, and remake, and amend. And you can see that this arm was once something else, but this was how it evolved, which is perfect. The head in the mirror is twice as big as it should be, and she couldn't possibly see herself in it from that angle. But all these things are completely beside the point."

Freud's own images of naked figures re-create the indomitable luminousness of human flesh. Erotic they generally are not. Velázquez's somber sense of drama and his luxurious paint have clearly affected Freud. But the eroticism of a work like the "Rokeby Venus" is another matter. "I'm more disposed to find people in ordinary sit-



Freud's "Naked Girl Perched on a Chair" (1994) and Velázquez's "Toilet of Venus (The Rokeby Venus)." (The Rokeby Venus is shown in a smaller inset image.)

uations erotic, like a nurse or a teacher, rather than a beautiful naked woman lying there," Freud explains, "because I think of people as animals. Maybe the erotic element I find in the Chardin has to do with the sweetness of her nature and the way it makes one feel joyous. On the other hand, I think an erotic element is in nearly all great art. I see it in Constable, certainly. It's to do with love, not sex."

BOOKS

THE STRANGE DEATH OF THE SOVIET EMPIRE

By David Pryce-Jones. 456 pages. \$30.
Henry Holt/Metropolitan.

Reviewed by Gary Lee

EXCELLENT media coverage of the collapse of communism throughout Eastern Europe has nonetheless left a lot of gaps in our sense of how the people at the center of that tumult saw and interpreted it. David Pryce-Jones goes a long way toward filling those gaps. His "The Strange Death of the Soviet Empire" is an oral history of characters who forged and characters who fought the dramatic events in Moscow and other capitals of the former Soviet republics and bloc countries during the late 1980s and early '90s.

Anatoli Lukyanov, an erstwhile ally of Mikhail Gorbachev, appears here, recounting how he and other cronies of the former Soviet leader were gradually pulled into the 1991 coup attempt against him. Petr Roman, catapulted to prime minister in post-Ceausescu Romania, is also featured, describing how the dictator's allies plotted to have him executed and then carefully maneuvered to cling to the power structures he

created. Egon Krenz, the last party boss in East Germany, is here too, talking of how he tried to forge a compromise that would retain control of communism but watched events quickly overtake his efforts. Pryce-Jones gives voice to dozens of witnesses to the fall of communism, including not only the main players but also such side characters as Ivars Keizars, a former media official in the Republic of Latvia, who recounts his perspective on how the Soviets lost their grip on the Baltic countries.

Unfortunately, the book lacks interviews with some key figures, such as the longtime East German leader Erich Honecker and Gorbachev himself. Although their accounts would have helped fill in some pieces of the puzzle, their absence does not detract from the value of "Strange Death" for students of the Soviet bloc.

Although few remarkable new facts emerge in them, the oral histories give a human face to one of the most remarkable power shifts in European history. They also broaden our understanding of how that shift came about. If interviewees such as the Gorbachev crony Alexander Yakovlev are to be believed, it resulted as much from petty bickering and power plays as from the triumph of one ideology over the other.

The book is particularly valuable in documenting how the Communist shake-up played out in the outlying countries, such as Latvia and Bulgaria, which received less attention from a press corps that was clearly stretched too thin to cover everything. Pryce-Jones, an English journalist who has devoted much of his career to covering Eastern Europe, revisited those places, ferreted out important witnesses to history and provided them with the opportunity to state their cases.

Pryce-Jones's approach is not without flaws. In providing rambling and sometimes contradictory accounts, he does little for the reader who is looking for a definitive history or a comprehensive analysis of the fall of communism. And his constant switching back and forth from his accounts and views to those of others is sometimes confusing.

But an autopsy should not be expected to be neat and smooth. Gaining accurate knowledge and understanding of the demise of the Soviet bloc requires a mix of many perspectives. Pryce-Jones's book is an important part of that mix.

Gary Lee is on the staff of The Washington Post and a former chief of the Post's Moscow bureau.



Robert Freeman's images of the early Beatles include this shot of John Lennon.

Beatles, Live From Hamburg

By Douglas Sutton

HAMBURG — This city prides itself on having given the lads from Liverpool a venue long before London ever did, so it seems a fitting place for the beginning of a traveling exhibition of early Beatles photographs.

"The Beatles: A Private View," at the Deichhorsthal museum, features 110 photographs by Robert Freeman of the 1963-66 years. (The photographs were published by Freeman in a book by the same title in 1990).

Freeman recounts how, in August 1963, the Beatles were so taken by a picture he had made of John Coltrane that they let him into their inner circle. What was to have been a one-day photo session stretched to several days, and it was a Freeman picture that graced the "With the Beatles" album in November 1963.

During the next three years, Freeman was a first-hand witness to the Beatles story. He accompanied the group on its tours, including the now legendary U.S. trip in February 1964. He saw them get married and he watched the making of the movies "A Hard Day's Night" and "Help!" He also witnessed the first rivalries and arguments involving the four and some of their spouses. Freeman's ride on the

Beatles' magical tour ended in 1966 in a dispute with EMI over his design ideas for the cover of the "Revolver" album.

His pictures document the Beatles' development from their pre-psychedelic scrubbed-schoolboy look — white collars, suits and ties, carefully coiffed mops of hair — to a less wholesome look by the time they were recording "Revolver." By then, the hair was longer and scruffier, Lennon was starting to wear shades in the studio, a toughness can be seen creeping around the edges of McCartney's eyes, and a cigarette is jutting from Ringo's clenched teeth as he slaps a tambourine.

In what could have been anybody's wedding album picture circa 1965, Ringo and his first bride Maureen and both sets of parents in their Sunday best are smiling straight at the camera. There's a closeup of a Western Union telegram dated Feb. 6, 1964, which congratulates the four on their first appearance on the Ed Sullivan show and is signed "Elvis and the Colonel." There's a still life of four sets of boots that the Beatles wore in 1963, and a recording session picture with Mick Jagger.

The exhibition runs through Jan. 7, then goes on to New York, Los Angeles and Tokyo.

Douglas Sutton is an American journalist based in Hamburg.

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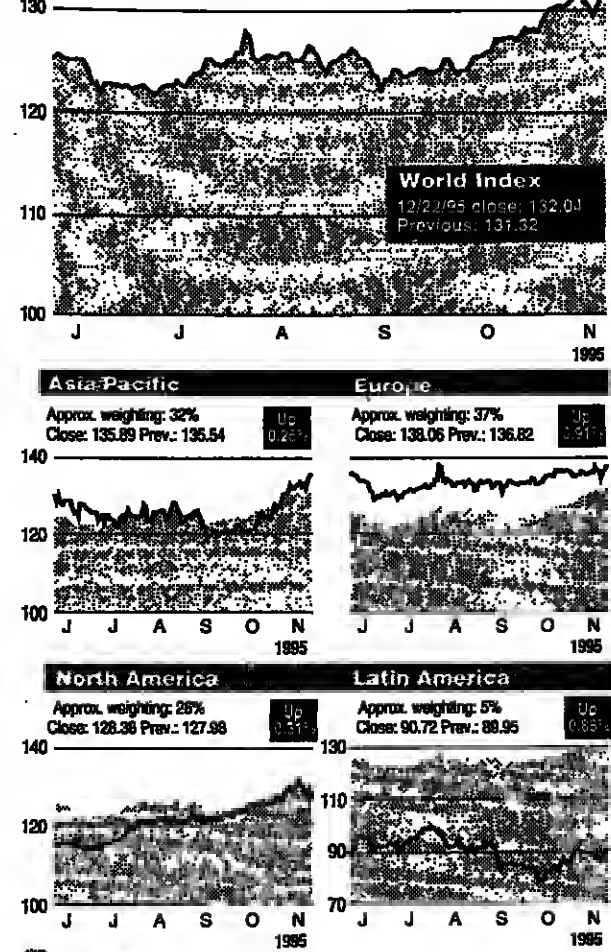
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Industrial Sectors	12/23/95	12/22/95	% Change
Energy	135.40	134.54	+0.64
Utilities	128.59	128.29	+0.23
Finance	128.70	128.06	+0.50
Services	120.49	119.75	+0.62
Capital Goods	132.67	131.86	+0.77
Raw Materials	142.38	141.68	+0.49
Consumer Goods	136.62	136.00	+0.46
Miscellaneous	135.31	133.38	+1.45

For more information about the index, a booklet is available free of charge. Write to Trib Index, 181 Avenue Charles de Gaulle, 92221 Neuilly Cedex, France.

France Targets Bouygues Investigation Focuses on Funds

Agence France-Presse

LYON — The chairman of Bouygues SA, the world's biggest construction company, was placed under investigation here on Friday for allegedly paying cash into a political slush fund.

The investigating judge, Philippe Courroye, placed Martin Bouygues under investigation along with Pierre Botton, a Lyon executive who has been convicted of influence peddling and fraud.

Mr. Bouygues was freed on bail of 500,000 francs (\$101,215) and on condition he does not contact Mr. Botton.

Both were called in for questioning Friday by Mr. Courroye. Mr. Bouygues was charged with abusing corporate assets and Mr. Botton with receiving them.

Mr. Botton said the money was used for the political campaigns of his father-in-law, Michel Noir, a former mayor of Lyon and former foreign trade minister. Mr. Botton's lawyer, Frédéric Pons, said his client was freed on bail of 1 million francs.

Mr. Courroye is investigating alleged cash payments of 2 million francs from Dumex Nigeria, a subsidiary of Bouygues, to a Swiss bank account held by Mr. Botton, and payments from other French companies.

Mr. Bouygues won a 6 billion franc contract for the Lyon ringroad when Mr. Noir was mayor. Mr. Noir has denied receiving any money from Mr. Botton's Swiss accounts.

Martin Bouygues was held for 36 hours near Paris this week before being released Wednesday evening. Mr. Botton was arrested Wednesday.

A Market Vote for Juppé

By Max Berley
Special to the Herald Tribune

PARIS — Financial markets applauded on Friday after Prime Minister Alain Juppé held firm to his program of French deficit reduction at a summit with labor leaders and employers, which followed some of the most severe labor unrest in 30 years.

The summit was rather well received by the markets insofar as Mr. Juppé did not make any major concessions," said Nathalie Fillet, a bond market analyst at Banque Paribas in Paris.

Share prices gained on the news that France would continue with an ambitious program to reform its welfare program. Returns that brought France to a virtual standstill as many of the country's public sector workers walked off their jobs in protest for three and a half weeks. The CAC-40 index of French shares rose 2.13 percent to 1,873.37.

Although only the prime minister himself expressed satisfaction with the talks and labor leaders raised the prospect of further unrest when the meeting ended early Friday afternoon, economists and financial analysts said the deadlock was a better outcome than any sign of weakening on the part of the government part would have been.

They said the markets were cheered that Mr. Juppé had neither given in on reducing the workweek nor withdrawn his social security reform plan, as the unions had requested.

Mr. Juppé got a further boost Friday when French commercial banks lowered their base lending rates by 0.3 percentage point, to 7.50 percent.

Many economists, however, were skeptical about the plans Mr. Juppé unveiled Thursday to reduce France's 11.5 percent unemployment rate by finding jobs for 250,000 young people within the next year. They were also dismissive of a series of tax incentives intended to incite the French to dip into their savings and increase economic growth by spending more on consumer goods in the first half of 1996.

According to the national statistics agency, INSEE, France's growth will slip below 1 percent in the first half of 1996 as buying power falls 0.6 percent and consumer spending remains flat, a scenario that could drive unemployment as high as 12.3 percent.

These predictions come as economists warn that the French economy could show negative growth in the fourth quarter of 1995 as a result of the strikes, which, according to the employers' federation CNPF, cost the French economy as much as 20 billion francs (\$4.06 billion), almost triple the 6.4 billion-to-8.4 billion francs the INSEE said they had cost.

According to economists, the measures unveiled Thursday by Mr. Juppé, which include allowing companies to dip into capital reserves and allowing consumers to withdraw cash from savings plans, are not likely to cause the cautious French to go out and spend their savings on consumer goods.

The personal savings rate in France is 14 percent, the highest in Europe. But economists warn that the deadlock with the unions, the prospect of further social unrest and the certainty of higher unemployment next year will do little to inspire the confidence needed to make the French dip into their savings and go out to buy more houses, cars or appliances.

"The measures are a nonevent," said Valerie Assolot, an economist at Crédit Lyonnais.

"The confidence of households depends on the viability of the solutions that are brought to the social turmoil."

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"The confidence of households depends on the viability of the solutions that are brought to the social turmoil."

Tokyo Plan Urges Objective Remedy For Credit System

By Sandra Sugawara
Washington Post Service

TOKYO — A government panel on Friday set forth proposals to stabilize the ailing Japanese financial system and, in particular, to contain damage from the increasingly troubled credit cooperatives.

It recommended extensive monitoring and inspections, and the establishment of prompt corrective actions that would be triggered by agreed procedures, such as specific capital ratios.

[Standard & Poor's Corp. on Friday lowered the credit rating on four of Japan's biggest commercial banks, citing concern about the "length and severity" of loan problems.

[S&P cut the short- and long-term debt ratings on Sanwa Bank Ltd. and Mitsubishi Bank Ltd. and the long-term ratings of Sumitomo Bank Ltd. and Dai-ichi Kangyo Bank Ltd.]

The suggestions are an attempt to move Japan, which is struggling under more than \$380 billion in bad loans, from a system based on informal directives and personal relationships to one based on more open and objective criteria.

The report also focused attention on one of Japan's weakest financial groups, the small institutions called credit cooperatives that are organized to take deposits from and lend money to members. There are 372 credit cooperatives in Japan, with total assets of about \$262.85 billion, according to the Finance Ministry.

Many are considered in serious financial trouble, according to analysts. In Tokyo alone, over 25 credit cooperatives have loaned out 80 percent of their deposits, and three of

those have loaned out 99 percent of their deposits.

The government panel, advisory group to the Finance Ministry, recommended establishing a Resolution and Collection Bank to take over failed credit cooperatives and liquidate their assets. Finance Ministry officials, at a news conference on Friday, described the Resolution Bank as Japanese version of the Resolution Trust Corp., designed bank failed U.S. savings accounts.

A special fund would be established at the Deposit Insurance Corp. for the next five years and premiums paid by financial institutions would increase about sevenfold.

Sei Nakai, deputy director general of the Finance Ministry's banking bureau, said it public funds would be used to assist failing credit cooperatives if the special deposit insurance fund ran out of money in five years. He said public funds would not be used to assist banks, because the deposit insurance fund and banking serves should be sufficient handle losses.

Mr. Nakai also singled another group, agricultural cooperatives, as "the most fragile part of our financial system. But he did not outline a special program for dealing with the cooperatives, which fall under the jurisdiction of a different ministry."

The Finance Ministry has been under fire for proposing this week that the agricultural cooperatives give up only a fraction of their bad loans, that taxpayers make up \$6 billion of the losses. But Mr. Nakai said that forcing big contributions could have triggered bankruptcies because agricultural cooperatives were in such bad shape.

Alcatel Will Sell Fiat Stake

Compiled by Our Staff From Dispatches

PARIS — Alcatel Alsthom said Friday it planned to sell its 2 percent stake Fiat SpA next year, ending a relationship that was once hailed as "an example for Europe."

A spokesman for Alcatel said the company's new chairman, Serge Tchuruk, had ended a deal with holding companies run by the Agnelli family, which controls Fiat, and was free to sell its Fiat shares next year.

The holding companies, Istituto Finanziario Internazionale and IFIL, said they were ready to buy Alcatel's stake. The Alcatel spokesman said the company had not yet decided when or to whom to sell the shares. He would not speculate

on the value of the stake.

Alcatel's former chairman, Pierre Suard, concluded the Fiat deal in October 1990, after earlier deals with ITT Industries Inc. of the United States and General Electric Co. of Britain, as part of his drive to turn the French company into a world leader.

Mr. Tchuruk, appointed in July, plans to sell 10 billion French francs (\$2.02 billion) in assets over the next two years as part of a drastic overhaul of the ailing company.

The French newspaper Les Echos hailed the Fiat deal at the time as an example of European cooperation to confront competition from U.S. and Japanese companies. (Reuters, Bloomberg)

ECONOMIC SCENE

Algeria Gets an Energy Lift

By Youssef M. Ibrahim
New York Times Service

PARIS — Algeria is on the verge of concluding several major energy deals for the development of some of its enormous oil-and-gas reserves. The agreements will bring a huge injection of capital to the country and are being characterized as a turning point in the West's confidence in Algeria's government.

British Petroleum Co. has made a commitment to spend \$3.5 billion in Algeria over the next quarter-century, the largest investment by a foreign concern since Algeria won its independence from France 33 years ago.

French and American energy companies are to follow with at least \$3 billion of investments to extract and export gas and oil to Europe and the United States.

"By almost any measure these deals are a strategic breakthrough," said Pierre Terzian, editor of Petrostrategies, an energy newsletter based in Paris. "They mean big business thinks the worst is over for Algeria. You don't spend an average of \$330 million a year for the next seven years in a country where you think the government is about to fall."

Although negotiations have been going on for some time, completion of these deals is almost certainly tied to the triumph of President Liamine Zeroual in the election Nov. 16.

Mr. Zeroual won a new five-year term with 61 percent of the vote as well as a legitimacy he lacked in his previous term, which he had secured with the help of the military.

A former army general, Mr. Zeroual has promised further moves toward democracy.

But he also vowed during his campaign to crack down harder on a militant Muslim rebellion that has fueled a three-year civil conflict resulting in at least 30,000 deaths.

The British Petroleum accord, due to be signed Saturday, involves exploration for and production of natural gas from huge reserves in the central Sahara region, according to officials of Sonatrach, the Algerian state energy company, and BP. The undertaking is expected to last 25 to 30 years and is expected to double and eventually triple gas exports to the Continent.

Nazim Zoulicouche, general manager of Sonatrach, said the agreement would open the way to decades of development of Algeria's reserves.

In addition, Atlantic Richfield Co. of the United States is planning to help expand production at oil fields in southeastern Algeria.

These ventures will bring to Algeria hundreds more expatriate oil workers to join an estimated 5,000 foreign oil and gas technicians already in the country, a commitment suggesting the companies appear satisfied that the government can protect foreign citizens despite two years of repeated threats, and some attacks, against foreigners by Muslim militants.

Islamic opponents of the government were poised to win elections in January 1992 when the government abruptly the second round of elections in which the Islamic Salvation Front was leading and outlawed the party. Since then, the number of violent Islamic factions has multiplied, and many have carried out campaigns of terrorism and killing.

But more recently, they appear to have lost support and been weakened by a government crackdown and by disputes among themselves.

Tietmeyer Stands Firm On ERM

Reuters

FRANKFURT — Hans Tietmeyer, the president of the Bundesbank, said Friday that only countries that tie their currencies to the exchange-rate mechanism for two years would be eligible to join the European currency union.

The comment came just days after Prime Minister John Major of Britain said that such a requirement was no longer mandatory and the European Commission called the question open.

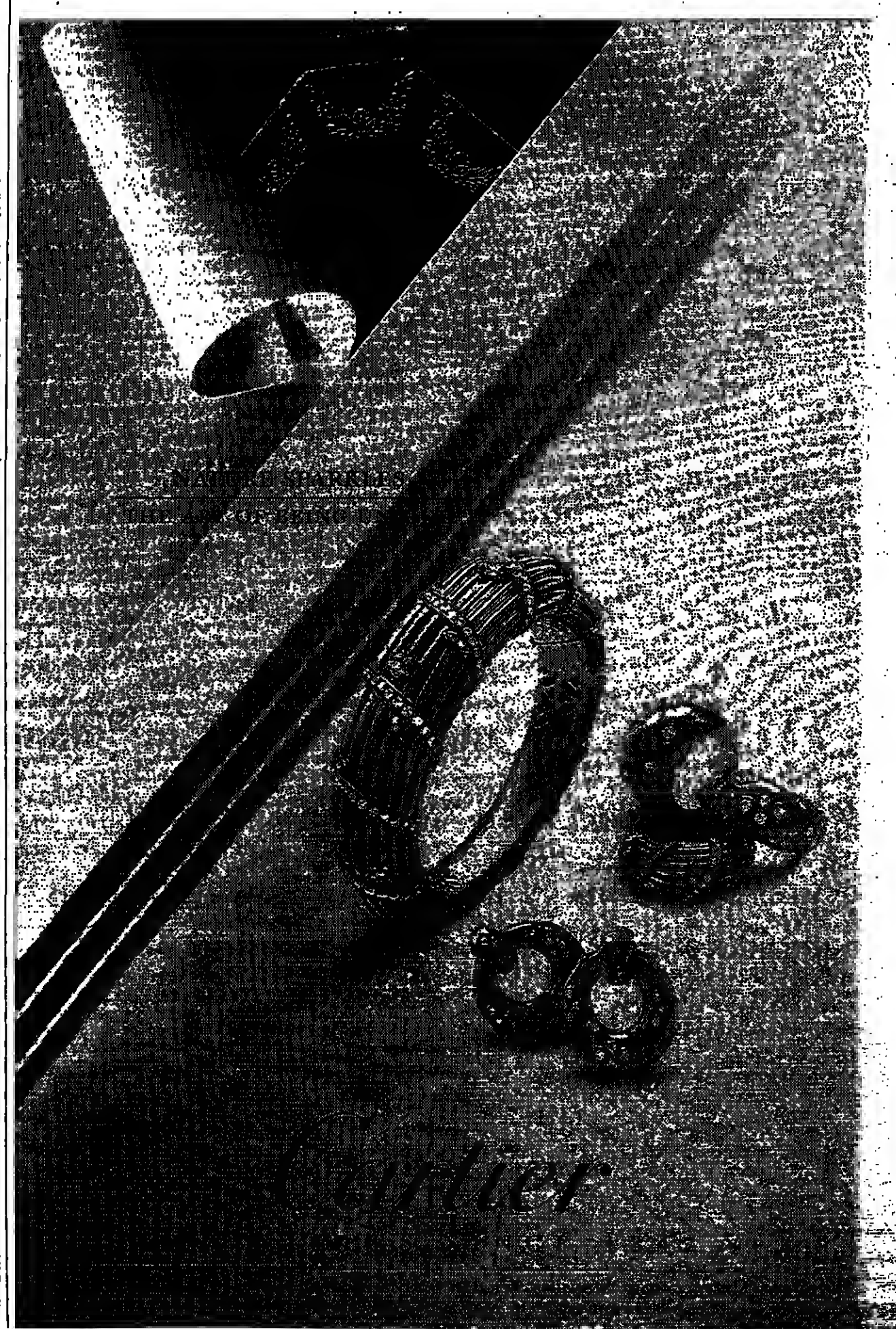
Britain, like fellow EU members Sweden, Italy and Finland, does not belong to the exchange-rate mechanism of the European Monetary System. If ERM membership is critical, they would need to join early next year to meet the two-year time requirement.

Mr. Tietmeyer told the daily Süddeutsche Zeitung that countries must be European Monetary System members to be able to join in the single currency, which is scheduled to begin in 1999 and that the treaty was clear on this point.

Germany has led a campaign to ensure strict adherence to the criteria set for single-currency membership in the Maastricht treaty.

CURRENCY & INTEREST RATES

Cross Rates									
	1	2	3	4	5	6	7	8	9
Australian \$	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
British pound	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Canadian dollar	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Deutsche mark	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
French franc	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Italian lira	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Japanese yen	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Swiss franc	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
U.S. dollar	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Other Dollar Values									
Argentine peso	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Australian \$	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
British pound	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Canadian dollar	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Deutsche mark	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
French franc	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
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Japanese yen	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Swiss franc	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
U.S. dollar	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Forward Rates									
30-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
60-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
90-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
180-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
360-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
Other Forward Rates									
30-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
60-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
90-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
180-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71
360-day	1.63	1.64	1.65	1.66	1.67	1.68	1.69	1.70	1.71



EUROPE

Seoul Firm Buys
Into North Sea
Energy Supply

Compiled by Our Staff From Dispatches
LONDON — The British subsidiary of Texaco Inc., said Friday it agreed to sell a stake in a North Sea oil and gas development to South Korea, ensuring a steady supply of fuel for that country's burgeoning manufacturing industry.

Texaco Ltd. said the state-owned South Korean Petroleum Development Corp., known as PEDCO, would pay \$210 million for a 15 percent stake in the North Sea Captain project, which will enable Korea to develop a fuel reserve. The country

does not have proven oil or gas reserves of its own.

"It's a good deal for us and it gives PEDCO a toehold in the upstream sector," said Mark Crompton, a spokesman for Texaco in London. "The Koreans are very keen to build business with us, and we see this as the start of a longer-term relationship."

The \$1.4 billion Captain field is due to start production in the fourth quarter of 1996, with initial output of 60,000 barrels of oil per day. Texaco said there were recoverable reserves at the site of at least 300 million barrels. The platform is currently under construction in Scotland.

South Korea's experienced oil supply difficulties in the Gulf War in 1991, when exports from the Gulf states stopped. Having an equity share in a project will give Korea a supply independent of the world market.

Korea imported 1.67 million barrels of oil a day in October, the latest month for which statistics are available, with the bulk coming from Saudi Arabia. Through the end of October, Korea's oil consumption was 1.17 percent above the year-ago period.

For Texaco, the deal provides a foothold in Asia. "The addition to acquiring an investment partner with this oil and gas project is an important business relationship with Korea," said Crompton.

"Order intake now is signaling that 1996 will be tough."

Volvo expects the entire U.S. market to fall to 150,000 units next year.

Mr. Laurensen said the United States is usually the first market to weaken in an economic downturn, followed by Britain and the rest of Europe. He said there were still no signs that the European truck market was weakening.

Separately, Mercedes-Benz AG said it had record worldwide car deliveries in November because of its new B-Class model. The company said it sold 55,700 cars last month, up from 50,400 a year earlier. Of these, 25,000 were its mid-range B-Class model, up 39 percent from November 1994. (Bloomberg, Reuters)

Prodi: Cut From the Left
Italian Candidate Talks Conservative

By James Hansen
Special to the Herald Tribune

MILAN — It will take Italy five years to dig itself out of the credibility hole it has dug for itself with foreign investors, says Romano Prodi, one of Italy's best-known economists and now a candidate for prime minister.

Mr. Prodi is also a former chairman of IRI, the state holding company that controls activities amounting to about 5 percent of Italy's gross domestic product.

"Italian financial markets are suffering a crisis of credibility largely caused by political instability," Mr. Prodi said. "Our economic problems could be solved in five years, but with continuously provisional governments, nothing can be done."

Describing the recent Italian budget as "only a very short step toward Maastricht," Mr. Prodi said of the Treaty on European Union and its blueprint for economic and monetary union starting in 1999, "How can you expect a government operating with a one-year time horizon to work seriously in that direction?"

Mr. Prodi has emerged as the likely candidate for prime minister of Italy's center-left coalition, to run against the center-right forces led by former Prime Minister Silvio Berlusconi in elections likely to take place in the spring.

In the vagaries of Italian politics, it is currently Mr. Prodi and his supporters, rather than the right, who are backing efforts to get Italy's stalled privatization program moving again.

Describing the recent placement of a minority stake in Eni Nazionale Idrocarburi, the state energy company, as "less than a success," Mr. Prodi said, "Italian investors acted intelligently. The ingredients—transparency, guarantees—just weren't there. No one knows if the company will ever be truly privatized." ENI shares fell 4 percent in their first three days of trading.

"Investors are not sufficiently protected here," Mr. Prodi said, adding that Consob, the market regulatory authority, "takes every case

of a takeover as a shock and gets a collective stomach ache."

Mr. Prodi also criticized the use on the Milan market of so-called Chinese-box holding companies, which allow top executives to parlay relatively modest personal investments into control of large enterprises.

"Chinese boxes on the Italian pattern are no longer tolerated anywhere else," Mr. Prodi said. "We have to say to these people, 'Gentlemen, the game is over.'"

Mr. Prodi said the practice could be abolished over two or three years by limiting the ability of such companies to participate in capital increases, in effect diluting their holdings to insignificant levels.

Mr. Prodi's political base, much of which depends on the support of the Democratic Party of the Left, the former Italian Communist Party, would seem to place him in an odd position to defend investors in the capital markets.

But Mr. Prodi, who was an adviser to Goldman Sachs & Co. before entering politics, said he believed only a government that included the left could take the steps necessary for a thorough overhaul of public spending and of government's management of the economy.

"We need a center-left government to institute reform because biting these particular bullets will require strong social cohesion," Mr. Prodi said. He cited France, where a three-week strike to proposed spending cuts snarled transportation and other services this month, as an example of how not to introduce change.

"They're doing interesting things in France," he said, "but they've failed to give the impression of doing them equitably."

The conservative French government this week named an avowed socialist, Lionel Jospin, to run its indebted railroad; he is seen as having a good chance of negotiating with unions.

In response to accusations that he is too gentle to take the steps needed to get the economy moving, Mr. Prodi said: "I left IRI with 100,000 fewer employees than it had when I got there."

Decoder
Controversy
Reopened
By Kirch

Frankfurt Business News

FRANKFURT — The Kirch Group is still pushing its own system for regulating access to digital television, sparking renewed controversy within the consortium that has been formed to supply decoder technology in Germany, consortium members said Friday.

Participants in the consortium known as MMBG, which includes Deutsche Telekom AG, Bertelsmann AG and Canal Plus SA, said representatives of the Kirch Group reopened the issue at a meeting on Thursday in Düsseldorf.

Representatives of Kirch want to renegotiate, said Volker Guseck, spokesman for the Kirch broadcaster ARD, another consortium member.

The statements by Kirch representatives, supported by other participants, who thought the issue had been settled in favor of the Mediabox system promoted by Bertelsmann, Canal Plus and other members of MMBG.

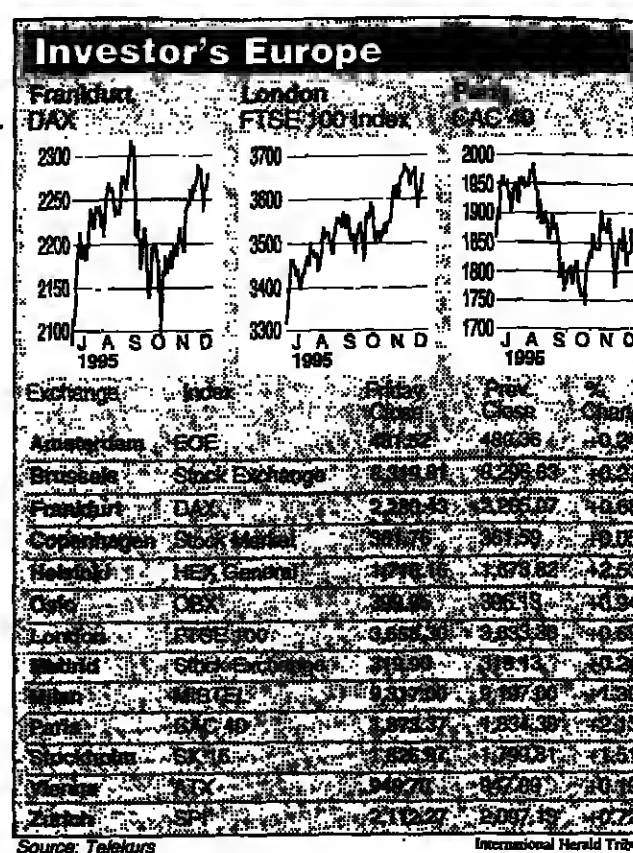
The controversy has implications for television throughout Europe. MMBG hopes to make its technology the standard for digital television on the continent, avoiding technical incompatibility between different systems.

Digital television will give European viewers a much greater selection of channels and programs than they have now. MMBG had hoped to begin offering service in Germany as early as next spring.

Johannes Schmitz, a Kirch spokesman, said he could not comment on the Düsseldorf meeting but that Kirch planned to introduce its technology "in different markets."

In addition, to Germany, Kirch is active in Italy and the Benelux countries. The company owns or licenses more than half of German television programming, and is one of the country's largest private TV station owners.

"The most important thing is to have a unified system," said Stephan Althoff, a Deutsche Telekom spokesman.



Very briefly:

•Lithuania's central bank said the bank Litimpeks had been declared insolvent and its operations frozen, two days after its innovation Bank, its planned merger partner, was closed.

•Mediabanca SpA must make a public offer for 10 percent of Ferruzzi Finanziaria SpA before the end of the year, Italy's high court said, rejecting a Mediabanca appeal.

•Barclays PLC agreed to sell more than half of its French property-portfolio to a consortium that includes Lehman Brothers Holdings PLC, Cargill Financial Services Corp. and La Salle Partners; the sale involves nearly 200 loans with a gross book value of \$114 million (\$175.5 million).

•Medeva PLC, the British drugmaker, signed an agreement with unit of Johnson & Johnson of the United States to develop and sell its hepatitis B vaccine in the Asia-Pacific region outside Japan.

•Western Germany's annualized consumer price inflation dropped to a provisional 1.4 percent in December from 1.5 percent in November; the rate averaged 1.7 percent for all of 1995.

•The European Commission approved the takeover of Northumbrian Water Group PLC by the French utility Lyonnaise des Eaux.

Names, names, names...

•Rod Olsen, acting chief executive of Cable & Wireless PLC in London, was named chairman of its British telephone company Mercury Communications Ltd. Stephen Pettit was named deputy chairman of Mercury.

•Hans-Peter Nickisch will retire at the end of May as deputy chief executive of DBV Holding AG in Wiesbaden, Germany, and will take a seat on the supervisory board of the subsidiary of Swiss land's Winterthur Insurance Group.

•David Sugden, chief executive of Geest PLC, plans to leave the British food marketing and distribution concern shortly after the completion of the pending sale of its banana division.

Reuters, Bloomberg, AFP

Bank of Spain Aids Markets

Compiled by Our Staff From Dispatches
MADRID — The Bank of Spain reduced its benchmark interest rate on Friday for the first time in 16 months, emboldened by prospects for falling inflation and recent rate cuts in Germany and the United States.

The central bank lowered the marginal rate on securities repurchase certificates to 9.00 percent from 9.25 percent, sending government bond prices, the stock market and the peseta soaring.

The yield on the benchmark 10-year government bond dropped to 9.77 percent from 9.82 percent, its lowest since May 30, 1994. The price rose 0.40 point, to 101.39.

The benchmark index on the Madrid Stock Exchange closed up 0.24 percent, at 319.9

points, a high for the year. The Deutsche mark fell to 84.64 pesetas, down from about 92 pesetas when Spain devalued its currency in March.

Decelerating inflation over the past several months had fueled expectations that the Bank of Spain would reduce interest rates. Year-on-year consumer price growth fell to 4.4 percent in November from 5.2 percent in April.

The prospects for lower rates also were heightened by a slowdown in economic growth. The government this week announced that gross domestic product expanded 2.9 percent in the third quarter.

Luis Angel Rojo, the central bank governor, said further cuts would depend on reductions in inflation and the deficit. (Bloomberg, Reuters)

U.S. STOCK MARKET DIARY

Indexes					Most Active				
Dow Jones					NYSE				
	High	Low	Close	Chg.		Vol.	High	Low	Close
Industrials	5912.50	5895.00	5900.00	+17.50	IBM	31,301	291.00	289.00	290.00
Transport	101.25	100.75	101.00	+0.25	Microsoft	47,742	7.70	7.70	7.70
Utilities	101.25	100.75	101.00	+0.25	Amazon	33,772	7.70	7.70	7.70
Commodities	101.25	100.75	101.00	+0.25	Apple	34,648	6.70	6.70	6.70
Energy	101.25	100.75	101.00	+0.25	Google	33,613	5.70	5.70	5.70
Chemicals	101.25	100.75	101.00	+0.25	Facebook	27,731	3.70	3.70	3.70
Standard & Poor's					Twitter	17,731	3.70	3.70	3.70
Industrials	High <td>Low<td>Close<td>Chg.</td><td>WhatsApp</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>Chg.</td><td>WhatsApp</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>Chg.</td> <td>WhatsApp</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	Chg.	WhatsApp	24,648	2.70	2.70	2.70
Transport	720.00	714.00	714.00	+2.00	LinkedIn	24,648	2.70	2.70	2.70
Utilities	571.50	565.00	565.00	+1.50	Slack	24,648	2.70	2.70	2.70
Commodities	560.00	554.00	554.00	+1.50	Dropbox	24,648	2.70	2.70	2.70
Energy	560.00	554.00	554.00	+1.50	Evernote	24,648	2.70	2.70	2.70
Chemicals	560.00	554.00	554.00	+1.50	OneDrive	24,648	2.70	2.70	2.70
NYSE	High <td>Low<td>Close<td>Chg.</td><td>SharePoint</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>Chg.</td><td>SharePoint</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>Chg.</td> <td>SharePoint</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	Chg.	SharePoint	24,648	2.70	2.70	2.70
Industrials	27.00	26.50	26.50	+0.50	Outlook	24,648	2.70	2.70	2.70
Transport	571.50	565.00	565.00	+1.50	Word	24,648	2.70	2.70	2.70
Utilities	560.00	554.00	554.00	+1.50	Excel	24,648	2.70	2.70	2.70
Commodities	560.00	554.00	554.00	+1.50	PowerPoint	24,648	2.70	2.70	2.70
Energy	560.00	554.00	554.00	+1.50	Access	24,648	2.70	2.70	2.70
Chemicals	560.00	554.00	554.00	+1.50	Visual Basic	24,648	2.70	2.70	2.70
AMEX	High <td>Low<td>Close<td>Chg.</td><td>VBScript</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>Chg.</td><td>VBScript</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>Chg.</td> <td>VBScript</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	Chg.	VBScript	24,648	2.70	2.70	2.70
Industrials	100.00	99.50	100.00	+0.50	JScript	24,648	2.70	2.70	2.70
Transport	571.50	565.00	565.00	+1.50	ASP	24,648	2.70	2.70	2.70
Utilities	560.00	554.00	554.00	+1.50	PHP	24,648	2.70	2.70	2.70
Commodities	560.00	554.00	554.00	+1.50	Perl	24,648	2.70	2.70	2.70
Energy	560.00	554.00	554.00	+1.50	Python	24,648	2.70	2.70	2.70
Chemicals	560.00	554.00	554.00	+1.50	Go	24,648	2.70	2.70	2.70
Nasdaq	High <td>Low<td>Close<td>Chg.</td><td>Rust</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>Chg.</td><td>Rust</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>Chg.</td> <td>Rust</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	Chg.	Rust	24,648	2.70	2.70	2.70
Industrials	100.00	99.50	100.00	+0.50	Kotlin	24,648	2.70	2.70	2.70
Transport	571.50	565.00	565.00	+1.50	Scala	24,648	2.70	2.70	2.70
Utilities	560.00	554.00	554.00	+1.50	Swift	24,648	2.70	2.70	2.70
Commodities	560.00	554.00	554.00	+1.50	Objective-C	24,648	2.70	2.70	2.70
Energy	560.00	554.00	554.00	+1.50	Cocoa	24,648	2.70	2.70	2.70
Chemicals	560.00	554.00	554.00	+1.50	UIKit	24,648	2.70	2.70	2.70
AMEX	High <td>Low<td>Close<td>Chg.</td><td>WebKit</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>Chg.</td><td>WebKit</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>Chg.</td> <td>WebKit</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	Chg.	WebKit	24,648	2.70	2.70	2.70
Industrials	100.00	99.50	100.00	+0.50	WebKit2	24,648	2.70	2.70	2.70
Transport	571.50	565.00	565.00	+1.50	WebKit3	24,648	2.70	2.70	2.70
Utilities	560.00	554.00	554.00	+1.50	WebKit4	24,648	2.70	2.70	2.70
Commodities	560.00	554.00	554.00	+1.50	WebKit5	24,648	2.70	2.70	2.70
Energy	560.00	554.00	554.00	+1.50	WebKit6	24,648	2.70	2.70	2.70
Chemicals	560.00	554.00	554.00	+1.50	WebKit7	24,648	2.70	2.70	2.70
Dow Jones Bond	Class <td>High<td>Low<td>Close<td>WebKit8</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td></td>	High <td>Low<td>Close<td>WebKit8</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td></td>	Low <td>Close<td>WebKit8</td><td>24,648</td><td>2.70</td><td>2.70</td><td>2.70</td></td>	Close <td>WebKit8</td> <td>24,648</td> <td>2.70</td> <td>2.70</td> <td>2.70</td>	WebKit8	24,648	2.70	2.70	2.70
10 Year	100.00	99.50	100.00	+0.50	WebKit9	24,648	2.70	2.70	2.70
20 Year	100.00	99.50	100.00	+0.50	WebKit10	24,648	2.70	2.70	2.70
30 Year	100.00	99.50	100.00	+0.50	WebKit11	24,648	2.70	2.70	2.70
5 Year	100.00	99.50	100.00	+0.50	WebKit12	24,648	2.70	2.70	2.70
10 Year	100.00	99.50	100.00	+0.50	WebKit13	24,648	2.70	2.70	2.70
15 Year	100.00	99.50	100.00	+0.50	WebKit14	24,648	2.70	2.70	2.70
20 Year	100.00	99.50	100.00	+0.50	WebKit15	24,648	2.70	2.70	2.70
25 Year	100.00	99.50	100.00	+0.50	WebKit16	24,648	2.70	2.70	2.70
30 Year	100.00	99.50	100.00	+0.50	WebKit17	24,648	2.70	2.70	2.70
Trading Activity					WebKit18	24,648	2.70	2.70	2.70
NYSE					WebKit19	24,648	2.70	2.70	2.70
Advanced	100.00	99.50	100.00	+0.50	WebKit20	24,648	2.70	2.70	2.70
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
Dividends									
Company	Per Amt	Roc	P/Y		Company	Per Amt	Roc	P/Y	
REGULAR					SPECIAL				
Advanced	100.00	99.50	100.00	+0.50	Declined	100.00	99.50	100.00	+0.50
Declined	100.00	99.50	100.00	+0.50	Unchanged	100.00	99.50	100.00	+0.50
Unchanged	100.00	99.50	100.00	+0.50	Not Rated	100.00	99.50	100.00	+0.50
Not Rated	100.00	99.50	100.00	+0.50	New Issues	100.00	99.50	100.00	+0.50
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
AMEX									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					
Not Rated	100.00	99.50	100.00	+0.50					
New Issues	100.00	99.50	100.00	+0.50					
STOCK SPLIT									
Confidential	100.00	99.50	100.00	+0.50					
Per Amt	100.00	99.50	100.00	+0.50					
REGULAR									
Advanced	100.00	99.50	100.00	+0.50					
Declined	100.00	99.50	100.00	+0.50					
Unchanged	100.00	99.50	100.00	+0.50					

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	23
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WITH soaring shares driven by the abundance of funds, fund companies may be watching their capitalization territories shrink as share prices rise. The fund companies that own such funds, for example, Citicorp Global Small Cap Fund manager, Gerald "Red" Rock, says that the fund's market capitalization is \$1 billion. Recently it had an average of \$100 million.

Although Mr. Morar is not in charge of his portfolio management sector, his company is holding, the German producer SAP AG, has been small when it was, "I was never trimmer," Morar said. "The real test ends to come when the end of its capitalization is always the question it is when it becomes small, the average fund's average is \$1 billion," said Morar's "mid-cap" (\$1 billion), "mid-

MONEY

FIRST COLUMN

If You Have To Ask, You Can Afford It

EVEN in financial circles, the debate is furious: Is size important? The answer, at least where market capitalization is concerned, appears to be that it is, but the reasons why differ according to the analyst you ask for an opinion.

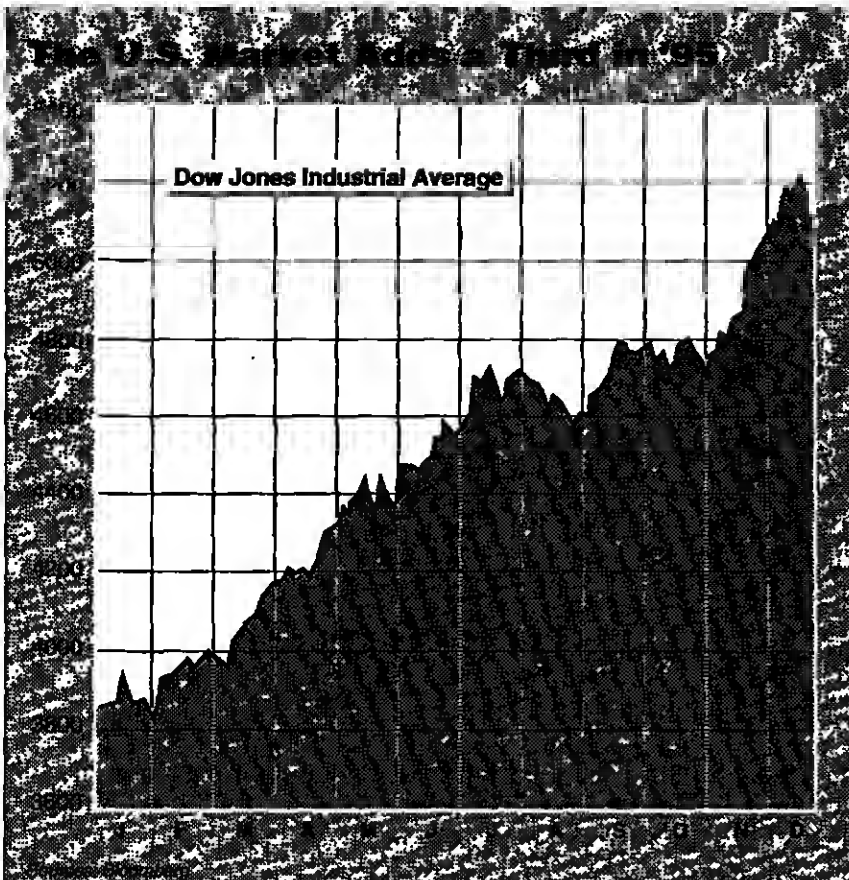
For many small investors, however, size of a different order is the crucial issue. Few really care about the liquidity of the market, the width of the trading margin or the management flexibility of the company. Forget market capitalization. What really matters is the size of the share price—and here, the smaller the better.

The reason for this is simple enough: leverage. In crude terms, a penny on a share priced at 10 cents is ten times more valuable than the same gain on a stock priced at a dollar. This is an often-ignored extra selection criterion employed by small investors.

There are those who commit their cash to last year's underachievers. These stocks, as Judith Rehak reports this week, are sometimes referred to as the "Dogs of the Dow." Their chief attractions are a satisfyingly poor performance in the preceding year and a good level of income. But the sheer excitement of tracking relatively large percentage swings is an important added factor. Thus, a lower-priced stock can be just that little bit more attractive.

There is, of course, no good reason to buy a penny stock if you believe in an efficient market that will price good news at the right level, whether a stock be at one penny or a thousand. But the fact is that stock splitting tends to have a beneficial effect on share prices more often than not. So in this case, at least, small is definitely beautiful.

M.B.



Small Caps: More Than Bulls and Bears

By Conrad de Aenlle

SMALL U.S. stocks spent most of the 1980s bull market becoming even smaller, compared with their larger-capitalized, blue-chip brethren. In the last couple of years they have surged, giving their owners cause to hope that they will continue to outpace larger issues for years to come.

It is a reasonable hope. Periods of comparative weakness in smaller stocks are usually followed by periods of strength, with each hill and valley taking about seven years to reach.

Between 1974 and 1983, the smallest 10 percent of American stocks rose by 28.4 percent a year, compared to 10.6 percent for all stocks, according to John Ballen, chief equity officer at Massachusetts Financial Services, a fund management company. From 1984 through 1990, small stocks drastically underperformed, rising by 2.6 percent per year, while the market as a whole rose by 14.6 percent. Since then smaller stocks have been ascending.

At the turn smaller stocks are extremely overbought and oversold. In the early 1990s, for instance, they carried an average price-earnings ratio that was less than that of Standard & Poor's 500 index of large companies. That is the only time that small stocks, as a group, have been cheaper than large ones. Their average price-earnings ratio now is about 1.4 times that of the S&P 500 components.

One explanation for the swings in rel-

ative performance is that small-caps usually do best in the early stages of a bull market, then surrender leadership to larger, safer companies as the market grows weary. Smaller stocks "will be exploited and reach very high valuation levels" as investors "look for niches that offer greater value," said Bernadette Murphy, a technical analyst at Kimmelman & Baird. Then, after the easy money has been made, the enthusiasm wears off. "When people become uncertain about the direction of the market, they move to where things are more secure," she said.

But that would only account for part of the small-cap cycle. When big stocks started to outpace small ones in 1984, the Dow Jones industrials were barely above 1,000, on their way to 2,700 before the crash and ultimately 5,000-plus—hardly the waning days of a bull market.

Louise Yamada, who studies market cycles at Smith Barney, said the cycle in small-cap stocks reflected the evolution of the world economy, and of the makeup of smaller publicly traded companies.

In the 1960s and 1970s, shares in smaller companies—the sort that supplied parts and services to bigger ones—did especially well. Now, Ms. Yamada argued, "we're in a different kind of two-tier market, globally exposed stocks versus domestically exposed." Large companies, she said, are better able to take advantage of the freer global market place that developed in the 1980s, while small companies concentrate on their home market. American companies of all sizes ben-

efited from the postwar expansion, but now and in years to come, she said, the best growth will come in the developing world, where multinationals stand the best chance of success for the foreseeable future.

Mr. Ballen of MFS pointed out, though, that small companies have been growing their businesses much faster than big ones during the last several years. "All job growth in the U.S. has been from small companies," he said. "Larger companies have been downsizing and retrenching."

The reason large companies excelled in the 1980s, he theorized, is that the consumer-goods companies that led the market benefited from a period of low, but not too low, inflation. They were able to outpace prices steadily and consolidate their operations to make them run more efficiently, all of which helped improve earnings year after year. Philip Morris Cos. "could get 20 percent earnings growth by just raising prices and restructuring," he said. "If you can get a 20 percent return on Philip Morris, why buy smaller companies?"

After inflation shrank a few years ago and the easy efficiency gains had been made, those returns were harder to come by. "In the 1990s, what has switched around is that larger companies can't get price increases, so smaller companies look more attractive," Mr. Ballen said.

The Money Report is edited by Martin Baker

For Blue Chips, Party Is Far From Over

By Judith Rehak

THE big blue chips of the U.S. stock market have had a fabulous run this year. The Dow Jones industrial average of 30 stocks soared through the record-breaking 5,000 mark in late November, closing last week at 5,176.73, up 35 percent for the year.

The Dow has had everything going for it: muted inflation, declining interest rates, and a crowd of investors seeking refuge from Washington politics, roller-coaster technology stocks and emerging market debacles in solid, familiar names like Coca-Cola Co., Merck & Co. and Procter & Gamble Co.

So after such an extraordinary year, is the party over for blue chips? Not necessarily, say the pros, but neither do they expect a repeat performance of 1995. Indeed, a look back at the performances of funds that specialize in big well-known companies shows that while these funds have surged as much as 40 percent this year, many have delivered sub-par returns in the previous two to three years.

Still, with some market watchers predicting the Dow could go to new heights in 1996, where should a blue-chip investor be looking now?

"The question is, what kind of blue chip?" says Roger Engemann, manager of the Pasadena Fifty Fifty and Pasadena Growth funds. Since he expects a slower economy in 1996, Mr. Engemann's funds will "stick with the steady growers like

Large vs. Small

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How to use stock indexes
The advantage to mega-funds
Size strategy for a bear market

Merck, Disney and McDonald's because their earnings will be up 15 percent or more, and recessions don't hurt them."

What he does not own are cyclical blue-chips like Caterpillar Inc., International Paper Co. or the auto stocks, companies he does not think will do well in 1996. "In a weak economy people will still go to the doctor, or take the kids to McDonald's, but a car can wait," he says.

For investors not inclined to detailed analysis of individual companies, the "Dogs of the Dow" method is one way to take a stake in blue chips. At the end of each year, these contrarians simply buy the ten stocks in the Dow Jones industrial average that have done the worst for the year, but pay the highest dividends, and hold them for the next 12 months. This strategy has produced some big winners: Two of 1994's most notable "dogs," Philip Morris Cos. and J. P. Morgan & Co., are up 68 percent and 47 percent, respectively, this year.

Robert Stovall, president of Stovall/ Twenty-First Advisers, takes the same theory and adds a few twists. Owners of Sears, Roebuck & Co., a 1994 dog that soared 72 percent this year, should take partial prof-

its, but owners of Philip Morris, which he believes is still undervalued, should hang on for now. And while Mr. Stovall likes some of this year's dogs, such as Chevron Corp., he is reluctant to buy others, like Woolworth Corp., which was a dog last year but lost ground throughout 1995 and then dropped off the list when it stopped paying a dividend. "The jury is still out on whether it will be a survivor," he says.

Another thing to consider when buying a U.S. blue chip, say the experts, is how much business it does overseas. "We have found that in many of the companies that are performing marvelously, it's international where the real growth is coming from," says David Fowler, equity strategist for the Vanguard U.S. Growth Fund. Like many other blue-chip fans, Mr. Fowler owns McDonald's Corp., whose fast-food empire is spreading to Eastern Europe and China, and Coca-Cola, which gets 80 percent of its revenues from outside the United States. Recently, his fund took a large position in PepsiCo Inc. Coke's archival and another global player.

Blue-chip investors are also doing more shopping in the top tier of technology stocks, such as Intel Corp. and Hewlett-Packard Co. After a red-hot performance for much of the year, share prices of these companies have taken a beating in the last seven weeks. For many portfolio managers, that is a buying opportunity. "We love companies like Intel," says Mr. Engemann. "It's big, profitable, and growing fast, earnings-wise, and they have 80 percent of the world market" in their field.

Fact and Fiction About Minis and Micros

By Baie Netzer

WITH soaring technology shares driving the performance of many small-stock funds, fund managers and investors may be watching their favorite small companies take their first steps into mid-capitalization territory. As these companies' share prices rise, so do the average capitalizations for the so-called small-stock funds that own such shares.

Take, for example, the \$250 million Scudder Global Small Company Fund. The fund's manager, Gerald Moran, like other small-stock fund managers, invests in companies with market capitalizations of less than \$1 billion. Recently, his fund owned stocks with an average capitalization of \$600 million.

But though Mr. Moran has less than 20 percent of his portfolio invested in the technology sector, his favorite stock and largest holding, the German business software producer SAP AG, has soared in price and, therefore, also in capitalization. "It was small when we bought it but lately, we've been trimming back on it," Mr. Moran said. "The real performance for a stock tends to come when it does start to break out of its capitalization range, but then there's always the question of what to do with it when it becomes so big."

Indeed, the average capitalization of most small-stock funds lies in what some investors consider "mid-cap" range (\$300 million to \$1 billion), according to data

from Lipper Analytical Services Inc. At the end of November, the average capitalization of small-stock funds was about \$800 million, according to Lipper data.

Investors looking for even smaller companies to invest in might be interested in so-called micro-cap or mini-cap funds. These funds generally invest in stocks with capitalizations no higher than \$200 million to \$250 million.

But while some might think that the highest returns lie in these undiscovered tiny stocks, history suggests otherwise. Both the one-year and five-year total returns for U.S. micro-cap stock funds are lower than similar returns for small-stock funds, according to Lipper. Towards the end of November, for instance, small-stock funds had returned an average of 21.8 percent annually over the last five years, while micro-cap funds had returned 17.4 percent annually during the same period.

Of course, an advantage to micro-cap funds is that with lower returns come lower risk. Kim Rebecca, an analyst at Morningstar, the Chicago-based fund research group, found that micro-caps had much less risk than average small-cap funds.

"Micro-cap stocks tend to be underfollowed by analysts, so they're also undertraded and they have low price risk," Ms. Rebecca said. "The funds that buy them are also more diversified across sectors because there aren't so many technology stocks which fall into the micro-cap range."

Among funds specializing in stocks with an average capitalization of less than \$200 million, three have achieved Morningstar's

highest ranking of five stars: Heartland Value, Franklin Balance Sheet Investment and T. Rowe Price Small-Cap Value Fund.

But because the stocks held in micro-cap funds are not widely traded, transaction costs for the funds tend to be higher, resulting in higher expense ratios for investors. In addition, Ms. Rebecca points out that the liquidity risk on these stocks is high, though the historic returns on these funds have generally made up for that risk.

Still, she warned, "investors should definitely have a long time horizon because it will take these companies longer to develop their potential."

At T. Rowe Price, a spokesman, Steve Norwitz, acknowledged that investors in micro-caps take on increased business risk but also pointed to the reduced market risk that micro-caps carry. "It's true that small stocks do fall more in price when the overall market goes down," Mr. Norwitz said. "But micro stocks are hardly traded at all, so they hardly move at all."

Investors interested in non-U.S. stocks will have a hard time finding international micro-cap funds abroad, however. T. Rowe Price's International Discovery Fund, for instance, has an average capitalization of \$442 million, well under the average for U.S.-invested funds but still over micro-cap territory.

Mr. Moran said one explanation lay in the higher risk attached to non-U.S. markets. "As you start to invest overseas, liquidity is a lot worse than in the United States for stocks with the same market capitalization," he said.

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THE WORLD'S DAILY NEWSPAPER

December 22, 1995

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		Harpur CHF Fixed Inc Dg	SP	1026.26	AUSTRALIAN DOLLAR PORTFOLIO	P.C.F. Vantage
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YARDS investing in small companies are the essential darlings of the bull market. This is the popular perception backed up with just reality to make it credible. Small companies are vulnerable to market swings, therefore, will rise when big companies fall on the markets, on the other hand, to favor blue chips and, in the meantime, some "hot" and "orphan" stodgy stocks from the backbone of the market indexes.

United States this year off one of the most important markets since the war and with some fund executives predicting that next year there will be just a little more of the bulls, the major ramifications for the investor should be obvious. Lead up on blue chips and have investors flock to the industry, and take profits on the smaller companies that are still profits to be made. The fact, is that how it will be done is more?

investors, both professional, are worried about a period of stagnation — around the corner. "We are concerned that the market has had a boom this year," says the Chicago-based monitoring group. "If we have news, the fallout will be in the small stocks that focus on them. They are flocking to stocks that are easy to

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THE MONEY REPORT

Indexes Prove a Useful but Limited Tool

By Digby Lamer

THESE days most investors are sensitive to the ups and downs of world stock indexes regardless of how directly their own investments are affected. A sudden flood of cash out of the Standard & Poor's 500, for example, is likely to send investors diving for cover in markets outside the United States.

Likewise, an extended bull market in one major market, where "psychological" barriers are consistently broken and stock prices hit all-time highs, may produce a spillover effect and boost investor confidence in a number of different markets.

But while indexes provide a necessary benchmark measure of investment performance, some are too broadly based to be effective for highly focused, smaller portfolios concentrating purely on large- or small-company stocks.

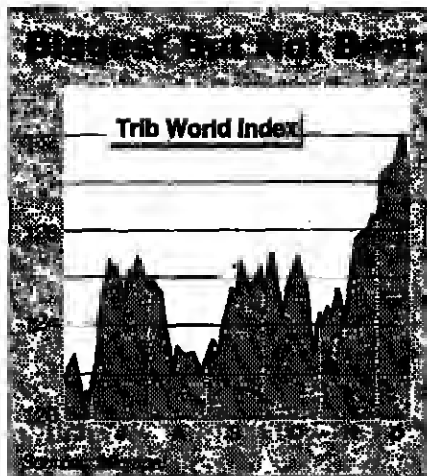
John Tickle, an analyst with Legal & General in London, says that with an index like the FTSE All-Share, which tracks around 900 shares, there can be a huge disparity between the effect the largest and smallest capitalized shares have on the index's overall performance.

"The top ten stocks account for about 25 percent of the index's total capitalization," he says. "By the time you get down to the top 100, you have about 78 percent of the index's total market capitalization and there is still another 800 or so shares in go at the smaller companies end."

In some international markets the weighting of a single stock can be enough to skew the performance of a whole index if the share's price moves. In the Netherlands, for example, Royal Dutch/Shell Group, the British-Dutch energy conglomerate, accounts for 31 percent of the local index's total capitalization.

For investors who are interested only in the biggest and smallest stocks traded on the London Stock Exchange, there are two separate indexes. The FTSE 100 monitors the 100 largest capitalized stocks, and the FTSE 250 covers the smallest.

But even where big and small companies are separated out from broader indexes, true performance can still be distorted. A po-



tential problem is that not all the stocks represented by an index may be available. This is a constant difficulty for international investors who frequently confront foreign ownership restrictions in certain countries.

To get around, some indexes are published in two versions — one covering all stocks, and another quoting only those that can be bought internationally. The range of world indexes published by Morgan Stanley Capital International has both "free" and "non-free" varieties. The International Herald Tribune's Trib Index tracks the top 100 capitalized stocks in 25 major stock markets and quotes only companies that can be bought by foreign investors.

The way an index is calculated can also make a difference. One of the world's oldest indexes is the FT 30, which monitors the performance of London's 30 biggest stocks. Its greatest advantage, say experts, is that it has a track record going back to 1935. Its major drawback, according to Tim Thomas, a director with Guinness Flight Capital Management Ltd. in London, is that it is calculated geometrically. "That means the price of all 30 stocks is added together and divided by 30. Mathematically the average performance of the index is reduced. It's not a serious problem, but it means that a manager simply buying up all 30 shares could claim to be outperforming the index."

Most larger indexes are calculated dif-

ferently from the FT 30, taking into account the individual weighting of each component stock. But occasionally stocks that are theoretically available are, in fact, almost impossible to buy.

Marco Caciati, a spokesman for MSCI in London, says the most problematic shares are those of privatized companies where the issue is targeted at a wide range of investors, or shares that have been held for a long time by an individual or institution and which never come to the market.

"We try and separate out this portion from the float," or the shares that can actually be bought and sold, Mr. Caciati says. "For example, we decided not to quote recent Italian privatization stock because only 15 percent of each company was sold off. We felt they were just too illiquid to be worth putting in the index."

He added that the MSCI index also tries to weed out disparities caused by the cross-ownership of different companies. In Turkey, for example, the Koc Holding company owns a number of subsidiaries, all of which are listed. Because of funding arrangements between the parent and its related businesses, MSCI decided to drop the main company from its index and quote only the subsidiaries. "Otherwise there would be a danger of duplicating figures where profits made by a subsidiary also appeared in the parent company's accounts," says Mr. Caciati.

But for investors who are unable to find an index they feel happy with the good news is that the number of smaller, specialized indexes is growing.

On the smaller companies side are indexes run by investment management groups like Hoare Govett and James Capel & Co. in Britain. Apart from those concentrating on big- and small-cap stocks there are also those devoted to niche investment sectors.

One growing trend is towards "tailored" indexes, built by statistical companies, like Datastream in Britain, to conform to an investor's specific needs. While a personalized index would be prohibitively expensive for most individual investors, sometimes indexes commissioned by investment management groups are made available to private investors.

Mutual Fund Giants' Home Run Year

All data is through 11/30/95

Fund	Assets, \$Bn	Assets, \$Bn	Assets, \$Bn	Assets, \$Bn	Assets, \$Bn
Fidelity Magellan	38.31	40.28	19.95	21.38	52,095.00
Washington Mutual Investors	36.42	38.06	16.34	16.71	17,018.60
Fidelity Puritan	18.71	18.95	14.51	16.62	14,578.20
Fidelity Contrafund	35.14	36.35	18.52	24.80	13,790.00
Vanguard Windsor	30.63	30.49	17.17	19.71	13,007.80

Source: Morningstar

International Herald Tribune

Biggest Funds Play by Their Own Rules

By Ann Brocklehurst

CAN mutual funds become too big for their own good? The jury is still mulling it over, but much of the statistical evidence appears to contradict the conventional wisdom that big funds do not perform as well as small ones.

Fidelity's Magellan Fund, the biggest of them all with \$52.1 billion in assets, has racked up returns of 38.31 percent in the year to date against five-year annualized returns of 21.38 percent and Magellan is by no means the exception that proves the rule. According to Lipper Analytical Services Inc., which has compared the performance of big funds to small funds in five different categories since 1988, big funds consistently post better returns than small.

"It's a topic which comes up with some frequency. People keep asking us, 'Gee, has Fidelity Magellan gotten too big to manage?'" says Jon Teall, a Lipper spokesman. "We dispute that notion. Size does not have to be a limitation in different markets."

Even among small-company growth funds, the bigger players — those with at least \$750 million under management — have done better this year than their smaller brethren, those with assets of \$10 million to \$20 million. The bigger funds yielded an average of 31.78 percent through Dec. 14, according to Lipper data, compared to 29.12 percent for the smaller funds. Smaller funds beat bigger funds only in the equity income group, where funds up to \$20 million had returns of 29.65 percent this year against 27.20 percent for funds over \$2 billion and 29.89 percent for mid-sized funds (\$250 million to \$500 million).

That does not mean, however, that there are no disadvantages to being big. For one thing, it is difficult for a multi-billion-dollar fund to take any kind of meaningful position in some of the interesting small companies whose high returns can significantly boost the earnings of smaller portfolios. As a result, some small-cap managers have closed their funds to new investors once assets start to grow.

Phillips Hager North Investment Funds of Vancouver put a

ceiling on its Vintage small-cap fund when assets hit \$30 million three years ago. "I don't think there are many people who've done what we've done because it's usually profitable to let a fund grow," says Tony Gage, president of Phillips Hager North. He adds that if Vintage had not closed, it would not have been able to continue specializing in small-caps, and clients would have found themselves in just another Canadian equity fund.

While growth does cause some funds to forfeit their claim to small-cap status, it does not necessarily erode their performance. Morningstar, the Chicago-based mutual-fund monitoring group, set out to find out what impact cash inflows have had on the 15 largest U.S. diversified equity funds, including Magellan. The group averaged \$3 billion in assets per fund at the end of 1991, compared to \$12 billion this summer.

"Almost all the funds saw their median market capitalizations rise as assets multiplied," writes Catherine Voss Sanders, editor of the Morningstar newsletter. While the median market capitalization of the Standard & Poor's 500 stocks has increased 17 percent since the end of 1991, the industry's largest funds saw their market caps increase by 175 percent on average.

She notes, however, that in 1995 Magellan was its "most idiosyncratic in years," focusing on mid-cap companies, holding only half its assets in S&P 500 issues, and sticking 40 percent of total assets — four times the market average in technology companies.

"You don't get to be the world's largest mutual fund simply by doing what everyone else is doing and, indeed, Fidelity Magellan has bucked the trends," she writes.

Of course, her analysis begs the question of whether big funds have performed well because they are big or whether they are big because they have performed well.

In analyzing the performance of big and small funds in Canada, Duff Young, a senior vice president at Midland Walwyn in Toronto, went beyond simply looking at how today's giants, where success clearly has bred size, have done over the past few years. He created a monthly composite, updated continuously, of the biggest

funds going back as far as December 1986.

In Canada, where two-thirds of fund assets are concentrated in about 100 of the roughly 1,000 funds sold, Mr. Young found that the "giants beat the smaller funds hands down — sometimes by a little, sometimes by a lot."

"Global equity funds are the most striking example. Just 11 funds, which make up a staggering 75 percent of the assets in the group, trounce the pack of the 100 smaller also-rans with which they compete," he says.

Mr. Young attributes the big funds' superior returns in astute stock-picking, which in turn he attributes to large global research staffs. In bonds, where margins are smaller and the performance gap between the best and worst funds is much narrower, he says the big funds are helped by economies of scale, which lower expenses and, as a result, boost returns.

"People think big funds' time is past, that they'll just perform in line with the market," Mr. Young says. "They say they can't continue to out-

perform the market because they're too big. Our research consistently shoots that down."

Ms. Voss Sanders notes that people used to believe that once a fund reached \$5 billion in assets, it would be forced to become a market surrogate. After analyzing current data, however, she concludes: "If one thing is certain, it's that nothing is certain."

She does, however, offer some guidelines for what to expect from an already large fund that grows significantly:

- Don't expect more stocks in the portfolio, and more larger-cap ones;
- Don't expect less overall market exposure, more foreign exposure or a change in overall performance.

BRIEF CASE

A New Futures Fund Targets Risky Business

Reflex reactions almost always make for bad investment decisions, but this does not appear to have worried the folks at Custom House Asset Management Ltd. in Dublin who dreamed up the name of their new vehicle, European Reflex Futures Fund Ltd.

The new fund is an open-ended investment company registered in the tax-privileged domicile of the British Virgin Islands, and its managers are seeking to offer professional and sophisticated investors "the opportunity to participate in a portfolio that will be actively traded in futures, forwards and options contracts on the international futures, commodities and foreign-exchange markets." The goal, say the managers, is "to achieve long-term appreciation" through "speculative trading."

The markets in which the new vehicle will be active will include, but not be limited to, base and precious metals, energy, crop and livestock markets, currencies, financial futures and stock-index futures.

The trading adviser is AMT (Futures) Ltd., a London-based futures broker regulated by the Securities and Futures Authority. AMT is a subsidiary of a British company, Amalgamated Metal Corp., which in turn is owned by Pressag AG of

Hannover, Germany. AMT's role will be to select, appoint and continually review the performance of trading managers for the fund.

In the interest of informed decision-making, it should be pointed out that the commission and fee schedule, compared with those of similar vehicles, is high. Minimum subscription is \$10,000, with an initial charge of up to 5 percent and an early redemption fee of 1 percent. There will also be a monthly investment management fee of one sixth of a percentage point with a further levy of 20 percent of "any net profits attributable to each individual trading manager" appointed by AMT.

For more information, call Custom House Asset Management Ltd. in Dublin at (353-1) 661-3400 or fax at (353-1) 661-3601.

Thank You for Flying Non-Deductible Airways

First deregulation, then no more pretzels with the drinks: Times do not get any easier for the beleaguered U.S. air passenger.

Now comes the perennial killjoy, the Internal Revenue Service, with more bad news. The IRS has issued a technical advice memorandum that says that a company's policy of allowing employees to keep frequent flyer mileage awards earned in conjunction with reimbursed business

travel could jeopardize the "accountable" status of the reimbursement plan. In other words, if you keep the awards, the company cannot deduct the cost of the travel.

"Saying that this ruling has caused an uproar is as much an understatement as stating that Washington, D.C. is a politically oriented town," notes Bill Dunn, a partner in Philadelphia with the accounting firm of Coopers & Lybrand.

"If the IRS does not retract [its] position," notes Mr. Dunn in a Coopers & Lybrand newsletter, "companies may want to consider segregating airline expenses into a separate reimbursement plan and eliminating any language that expressly permits employees to keep frequent flyer bonus miles."

Jersey Offers Limited Liability Partnerships

The Channel Island of Jersey is introducing one of the more fashionable legal forms in the investment world. Investors will soon be able to avail themselves of Limited Liability Partnerships, one of the most favored legal vehicles for hedge- and currency-fund investment.

Based on similar legislation already on the books in Delaware, the new legal form will require limited partners to make \$5 million (\$7.5 million) provision for judgments against them.

Phillips Hager North Investment Funds of Vancouver put a

The Fix Is In: Placing Bets on the Great Bear Market of 1996

By Aline Sullivan

FUNDS investing in small companies are the undisputed darlings of the bull market. This is because of the popular perception — backed up with just enough reality to make it credible — that small companies are more vulnerable to market swings and, therefore, will rise higher than big companies.

Bear markets, on the other hand, tend to favor blue chips — the safe, somewhat stodgy "widow and orphan" stocks that form the backbone of the major market indexes.

With the United States this year coming off one of the most durable bull markets since the 1960s, and with some fund experts predicting that next year the bears will fare just a little better than the bulls, the investment ramifications for the small investor should be obvious: Load up on blue chips now, before investors flock to them for safety, and take profits from the smaller companies while there are still profits to be had.

But, in fact, is that how it will work? Or do U.S. markets have surprises in store?

Plenty of investors, both private and professional, are worried that a downturn — or, at least, a period of stagnation — is right around the corner.

"People are concerned that the U.S. market has had a tremendous boom this year," said John Rekenhaller of Morningstar, the Chicago-based mutual-fund monitoring group. "They know that if we have some bad news, the fallout will be greatest in the small stocks and the funds that focus on them. So they are flocking to the big stocks that are easy to trade."

A spokesman for Lipper Analytical Services Inc., a New York-based mutual-fund monitoring firm that has an international database, suggested that recent stock-market history might be about to repeat itself.

"Funds investing in blue chips were stronger performers at the beginning of 1995 because investors were worried that the U.S. stock-market rally could come to a screeching halt," he said. "But as confidence improved by the summer, investors turned increasingly to small-company funds in search of greater returns."

"In recent months we have seen renewed strength in the big stock funds," the spokesman continued, citing as an example the Vanguard Index 500 Portfolio Fund, which has swelled to \$15.1 billion in assets under management.

"That's a lot of money," the spokesman said. "It may be an indication that investors are once again concerned about the strength of the rally."

This analysis, however, is by no means universal. Some fund managers caution that if shares continue to rise, small-company funds are likely to make the greatest gains, partly because they still have some catching up to do: The Russell 2000 index of U.S. small and mid-sized companies is up about 27 percent this year, or ten percentage

points less than the Standard & Poor's 500 index of leading U.S. shares.

But Mr. Rekenhaller of Morningstar attributed much of the growth this year among the top-performing small-company funds to the high proportion of their assets in high-technology stocks, an industry that many analysts expect to perform less spectacularly next year. "If these stocks do badly, the 1995 fund winners are going to be the big losers," he said.

A similar trend can be identified in Britain, where the FTSE All-Share index is up around 17 percent this year but the SmallCap index of smaller companies has risen only 11 percent.

James Tew of Fund Research, a London-based monitoring group that extends its research into interviewing and assessing fund-management teams as well as performance and volatility number crunching, observed that in recent weeks there has been a noticeable shift of investor preference. More money is going in funds concentrating in larger,

more defensive stocks and away from the small company funds.

"Of course, if the market as a whole is falling then it would be more difficult for blue-chip company shares to rise, whereas as one or two small capitalized stocks could," he said. "But the big company funds are generally a safer bet."

However, even among British blue chips the 1995 bull market has not been a universal phenomenon. The best performers have been banks, life assurance companies and the pharmaceuticals sector. The retail sector has performed far less impressively, and privatized utilities such as British Gas PLC and British Telecom PLC have seen their share prices decline during the year.

On both sides of Atlantic, there has been a notable shift by investors into big-cap funds. Lipper Analytical has noted a psychological aspect to the trend: Professional investors often feel it is their business to be investing in the equity markets, so rather than convert their holdings to cash, they shift

funds into larger-capitalization stocks.

Contrarians — and the cynics who regard investment as a game that the small investor invariably loses — will see the increased popularity of funds investing in large stocks as portending one of two things.

The first possibility is a general market malaise in which little money is to be made from holding shares, whatever the income they produce or however easy they may be to sell.

The second scenario would see the larger, more liquid stocks falter while extra value and growth is squeezed from the small companies sector.

Either way, the small investors' play would, on this analysis, be a losing one.

"When we see these people switching from small to large stocks, it is because they are looking for liquidity," the Lipper spokesman said. "It looks like the day for blue chips."

However, the unexpected strong showing of U.S. equity markets in general during 1995 make the pundits more than usually cautious about placing their bets this time around, especially as they relate to company size and stock-market performance.

"If the markets stay the way they are now, then the small-company funds will go up," said Mr. Rekenhaller of Morningstar. "But if we are in for bad news, what is now a crack in their performance will become a chasm."

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Herald Tribune
SPORTS

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WORLD ROUNDUP

George Weah, AC Milan's Liberian-born striker, is favored to win a top individual award.

Weah Set for Award

SOCCER Cameroon started at the 1990 World Cup. Nigeria impressed four years later. And now George Weah, AC Milan's Liberian-born striker, appears poised to win Europe's top individual award.

Weah is one of a slew of African players who recently have become stars in Europe where, along with South America, many feel the world's best soccer is played. He is expected to walk off with France Football magazine's Golden Ball for the best club player in Europe on Tuesday.

Other African players who have made an impact in Europe this year include Finidi George of European titlist Ajax Amsterdam, Tony Yeboah of Leeds and Emmanuel Amunike of Sporting Lisbon. (AP)

Duran Stops Garst in 4th

BOXING Former four-time world champion Roberto Duran dominated throughout, particularly with body punches, to stop Wilbur Garst at 2:14 of the fourth round of a scheduled 10-round, super-middleweight fight Thursday night in Fort Lauderdale, Florida.

Duran, a native of Panama who lives in Miami, dominated Garst with jabs and straight rights as well as with crushing blows to the body.

Garst landed some rights to the head but not enough to overcome Duran's assault. Duran improved his career record to 97-11, with 67 knockouts. Garst, from Tulsa, Oklahoma, is 17-4. "He hit me with some good shots, but I just had to measure him right," Duran said. (AP)



Alberto Tomba of Italy on the way to his second consecutive World Cup slalom victory on Friday in Slovenia.

Tomba and Wiberg Take Cup Slaloms

The Associated Press
KRANJSKA GORA, Slovenia — Alberto Tomba of Italy posted a sensational time Friday in the first heat en route to his second consecutive men's World Cup slalom victory.

The defending World Cup champion was clocked in 47.46 seconds for the first run, a half-second faster than any other skier. Starting in 15th place in the second run, he attacked the course, and his time of 49.38 gave him an overall clocking of 1:36.84 — a whopping 1.21 seconds ahead of the runner-up, Jure Kosir of Slovenia.

"I have no secrets," Tomba said. "I skied aggressively, but I had to hold back a bit in the bottom section because the course was so ruined."

On his 29th birthday Tuesday, Tomba

earned his first victory of the season — and the 46th of his career — in a slalom at Madonna di Campiglio, Italy. There, too, he dominated the race, winning by 1.55 seconds.

"I'm skiing excellent now," he said. Tomba has said he doesn't care about winning the World Cup title, and that his ultimate goal is the World Championships at Sierra Nevada, Spain, in February.

While Tomba has won the Olympic gold medal three times and the overall World Cup title once, he never has won at the World Championships.

In Vevey, Switzerland, on Friday, Sweden's Pernilla Wiberg won a women's World Cup slalom for her first triumph of the season and the 12th of her career.

The two-time Olympic champion com-

bined exquisite form with a powerful second run that vaulted her from 13th place to victory. She overcame a .77 second first-run deficit in posting an overall time of 1 minute, 14.42 seconds.

Slovenia's Urška Hrovat, runner-up in the previous slalom at St. Anton, Austria, was second at 1:14.72. She was followed by first-run leader, Kristina Andersson of Sweden, at 1:14.73.

"In the second run I felt I had nothing to lose, so I just attacked," Wiberg said.

The results left the top of the overall World Cup standings unchanged. Austria's Alexandra Meissnitzer — winner of Wednesday's super-G but who does not compete in the slalom — leads with 488 points, followed by her compatriot Anita Wachter with 463 points.

Soccer Associations Gird To Defy Brussels Ruling
EU Response 'Remains to Be Seen'

GENEVA — The governing bodies of European and world soccer said Friday that they did not intend to make any immediate changes to European transfer rules and restrictions, despite a European Court of Justice decision last week that they were illegal.

In a joint statement bringing them into open conflict with Brussels, UEFA and FIFA also said they were convinced the court's ruling against foreign-player limits did not apply to European club matches.

In Brussels, the European Commission said the court ruling had been effective immediately and that it reserved the right to take the governing bodies to task if they defied it.

"The European Court has made a ruling which is directly applicable in the member countries," of the European Union. "So we would expect the countries to go along with that court ruling." Whether or not the commission would initiate a procedure, that remains to be seen. That's not to be excluded, he added.

In Geneva, the governing bodies tried to reassure national soccer associations — some of which fear a collapse of their domestic transfer systems — that a solution to the crisis could be found.

"While recognizing the importance of this case, both UEFA and FIFA urge member associations not to panic," they said. "We are convinced that the football movement — associations and players working together — can, and will, achieve a common solution in the best interests of our sport."

After a five-year legal battle waged by a Belgian player, Jean-Marc Bosman, who felt the transfer system had ruined his career, the European court ruled last Friday

that current restrictions on transfers and limits on foreign players broke EU laws on workers' freedom of movement.

The ruling, which allows players who are not under contract to move to another team without their old club receiving a transfer fee, has left the game in confusion and has been seen as threatening the existence of minor clubs, which rely on transfer income to survive.

UEFA and FIFA officials met at FIFA headquarters in Zurich on Thursday to discuss the implications of the ruling, and were planning further meetings in January.

The two organizations said they were convinced that a UEFA rule limiting the number of foreigners on a team to three, plus two "assimilated" players, still applied to European competitions "in which teams represent not only themselves, but also their countries."

English Premier League Complicates

Despite the statement issued by UEFA and FIFA, the English premier soccer league, on Friday lifted restrictions on the number of players from EU countries that each club could field, Reuters reported from London.

The league's chief executive, Rick Parry, said: "The legal advice we have received makes clear that rules which attempt to limit the number of EU nationals are unenforceable in the light of the Bosman judgment. We have accepted that advice and are now in the process of informing our clubs of that position."

Mr. Parry added: "We are, of course, aware of the statement issued today by FIFA and UEFA. However, our legal advice is clear — current rules on EU nationals, even if maintained, cannot be enforced."

Debate on Starting Time for Olympic Men's Marathon Is Heating Up

By Jere Longman
New York Times Service

NEW YORK — Like the course itself, the world governing body for track and field appears to be making twists and turns in retreating from its decision to schedule the Olympic men's marathon in Atlanta, Georgia's evening heat and humidity next August.

Track and field's chief medical officer said Thursday that he had recommended the men's marathon be run at 7 or 7:30 A.M. on Aug. 4, as opposed to the scheduled time of 6:30 P.M., when the average temperature in Atlanta is 80 degrees Fahrenheit (27 centigrade) and the average humidity is 65 percent.

"There is no such thing as a favorable time to run the marathon in Atlanta at that time of the year," said Dr. Arne Ljungqvist, chairman of the medical commission of the International Amateur Athletic Federation, track's world governing body, from his home in Sweden. "So we have to choose the least unfavorable time."

While highly trained marathoners should not be at risk of dying in the evening heat, Dr. Ljungqvist said, they may be subjected to "unnecessary suffering" from dehydration, exhaustion, a high dropout rate and slow times in what, for many, is the premier Olympic event.

"Although the humidity and temperature will be high in the morning, the

overall heat-stress condition seems to be worse in the afternoon and evening," Dr. Ljungqvist said. A final decision will be made in March, during IAAF meetings in Cape Town, South Africa, he added.

Dr. Ljungqvist's position appears to counter that of the IAAF's president, Primo Nebiolo of Italy, who has argued for the evening start and with whom the ultimate decision for the starting time rests. By awarding the final medal of the summer games, Mr. Nebiolo has said, track and field maintains itself as the No. 1 Olympic sport. The men's marathon has been held in the early evening since 1984, finishing in the Olympic Stadium prior to the pageant-like closing ceremonies.

There are signs, however, that Mr. Nebi-

olo, who some say may have been holding out for more money from the IOC, may agree to the early start. The IOC allocates revenue from television advertising and other sources to the various federations representing different sports.

But track's world governing body is not likely to receive more than the \$9 million already allocated by the IOC, said Ollan Cassell, executive director of USA Track and Field, the U.S. national governing body for the sport.

"It seems like all the deals you're going to be able to make with the IOC and the Atlanta organizers are sealed," Mr. Cassell said.

Dave Maggard, director of sports for Atlanta's Olympic organizing committee,

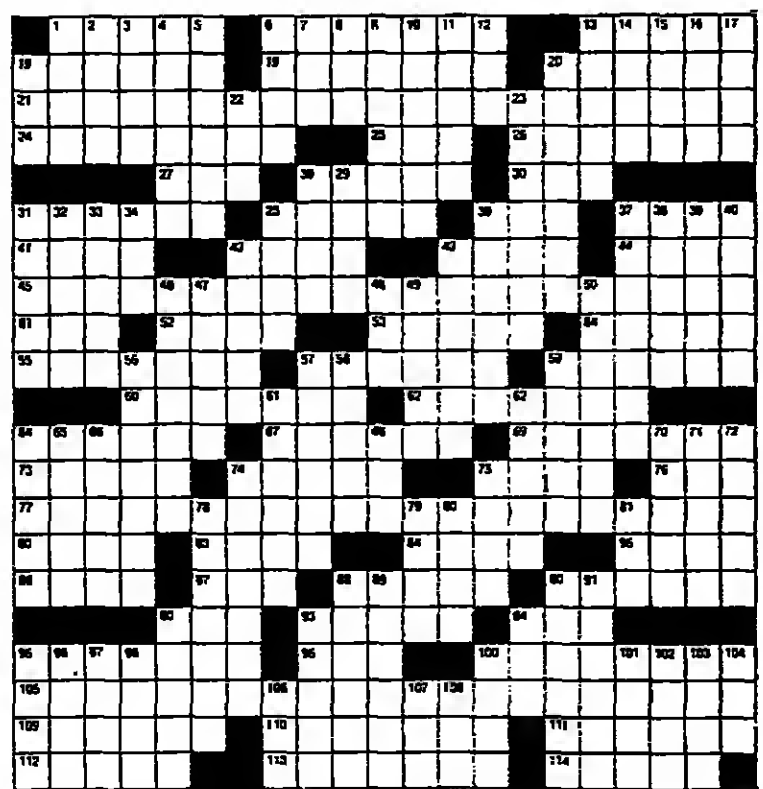
said that Atlanta could accommodate a schedule change if that were required because the men's marathon is run through the streets of the city and does not require a ticket to watch.

The medical commission of the International Olympic Committee has also recommended that the men's marathon not be run in the early evening. Moreover, many runners have complained about the 6:30 P.M. start. The women's marathon is scheduled for 7:30 A.M. on July 28.

Ed Eyestone, a two-time Olympian, said: "Running in Atlanta is going to be a Bataan death march either way. It's inevitable they would move the equestrian events because of the heat, but not the human events."

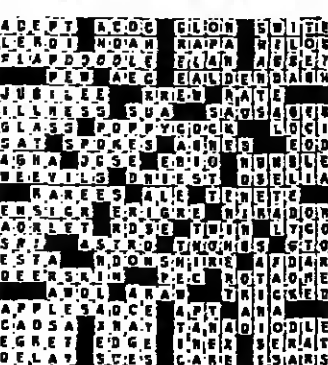
FLEETING THOUGHT By Frances Hansen

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 - 13 Mild cigar
 - 18 Operative barber
 - 19 Immediate
 - 20 Saudi king, 1964-75
 - 21 Start of a verse
 - 24 Behind
 - 25 One of the Germans
 - 26 Makes a collar
 - 27 Storm heading
 - 28 He drew laughs from his "Well!"
 - 30 Layer
 - 31 Subject of medical advice
 - 35 "The Prisoner of —"
 - 36 Marryin' — of "Li'l Abner"
 - 37 — uproar
 - 41 Plenty, to Fitzgerald
 - 42 Comic Sahi
 - 43 Antique description
 - 44 "Peter Pan" dog
 - 45 More of the verse
 - 51 Filmdom's Alastair
 - 52 Where to see Gerard Depardieu
 - 53 "X-Files" extra
 - 54 Davis of "Evening Shade"
 - 55 Bridge type
 - 57 "Phedra" playwright
 - 59 Pollen bearer
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 - 62 Solidly based
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 - 75 Norway's patron saint
 - 76 "That makes me mad"
 - 77 More of the verse
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 - 83 Let up
 - 84 Stiff in the joints
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 - 86 Glamour founder
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 - 88 Pitches, as hay
 - 90 Late, great saxophonist
 - 92 Erwin of early TV
 - 93 Immediately
 - 94 — of ale
 - 95 More than
 - 99 Ovarian, e.g., dolabriform
 - 100 Fell back
 - 105 End of the verse
 - 109 Morning prayer
 - 110 Grievous, to grandma
 - 111 1990 Stanley Cup champs
 - 112 Kind of theater
 - 113 Makes effervescent
 - 114 Song of triumph



New York Times/Edited by Will Shortz.

- DOWN**
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 - 4 Kind of pan
 - 5 Tertiary Period epoch
 - 6 Wax-glazed fabric
 - 7 Black cuckoo
 - 8 Letter addenda
 - 9 Come to
 - 10 "The Magic Flute" heroine
 - 11 — case
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 - 13 Sinne landmark
 - 14 Bowl of cherries, maybe
 - 15 Store warning
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 - 18 Certain investigator
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 - 23 And
 - 24 Chip off the old ice block
 - 28 Tolkien irce-men
 - 31 Believer in one God on rational grounds
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 - 35 Taxi map division
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 - 38 J. Carroll — TV's Charlie Chan
 - 39 Poe poem "For —"
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 - 47 — de-Paris, France
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 - 56 Sm color?
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 - 58 Go out on —
 - 59 Shipboard position
 - 61 Not at all
 - 63 Marquand's late George
 - 64 Attach, as a button
 - 68 "Waterworld" girl
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 - 78 Home makers
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 - 88 More shrewd
 - 89 Classic Bee Gees album
 - 90 Whipped cream serving
 - 91 And others
 - 92 Tuscany tourist locale
 - 93 Western lake
 - 94 Petter
 - 95 Fine ecotour
 - 96 In the distance
 - 97 Where it's hot
 - 98 Certain movie theater
 - 100 Bartender's bottles
 - 101 1941 Pulitzer journalist
 - 102 "Did you ever —" lassie
 - 103 Gross, solo
 - 104 No and Dye, e.g.
 - 106 USAir rival
 - 107 Cousin of "Hulk"
 - 108 Soul, in Sems

Solution to Puzzle of Dec. 16-17**Don't Count Giants Out Against the Chargers**

By Timothy W. Smith
New York Times Service

San Diego (8-7) vs. New York Giants (5-10) The Chargers know what they have to do to defend their AFC Championship: Beat the Giants. That's the easiest way for San Diego to get into the playoffs. But it won't be an easy game for the Chargers. Prediction: New York 21-18.

Detroit (9-6) vs. Tampa Bay (7-8) Even though the Lions are already in the playoffs, thanks to the Vikings' loss to the 49ers on Monday night, Detroit coach Wayne Fontes would like nothing better than to get to 10 wins. The Bucs can't stop the Lions. Prediction: Detroit 27-13.

New England (6-9) vs. Indianapolis (5-7) For the Patriots, it's the end to a very disappointing season. For the Colts, a victory could be the start of something wonderful in the playoffs. Prediction: Indianapolis 28-17.

New York Jets (3-12) vs. New Orleans (6-9) Coming off last week's performance at Houston, there is no much inducement for Jets fans to freeze in Giants Stadium. The capable Saints' defense will sack the Jets, giving them the generous gift of the No. 1 or No. 2 pick in next year's draft. Prediction: New Orleans 17-10.

Pittsburgh (11-4) vs. Green Bay (10-6) The Packers are looking to clinch their first NFC Central division title since 1972. The Steelers want to stretch their winning streak to nine games. Prediction: Green Bay 29-27.

Houston (8-8) vs. Buffalo (10-5) Having already secured a playoff berth and a home game, Buffalo will rest Jim Kelly and start

NFL MATCHUPS
rookie Todd Collins. But the Bills at Rich Stadium in December are too much for the Oilers. Prediction: Buffalo 20-17.

Seattle (8-7) vs. Kansas City (12-3) The Chiefs are looking at wrapping up home-field advantage throughout the playoffs. They'll have to do it against a Seattle team that seems to have discovered in the last few weeks that it doesn't have to be the doom of the AFC West. Prediction: Kansas City 24-19.

Cleveland (5-10) vs. Jacksonville (5-12) Vinny Testaverde will be able to pick the Jaguars apart. The Browns are looking to close out a weird and disappointing season in advance of a possible move to Baltimore. They'll go out winners. Prediction: Cleveland 23-21.

San Francisco (11-4) vs. Atlanta (8-7) The Falcons need to win this game to make the playoffs. History says they don't have a chance. Prediction: San Francisco 31-24.

Philadelphia (10-6) vs. Chicago (8-7) The Eagles are in the playoffs, but they don't want to lose to Chicago, because if the Bears win and get into the playoffs the two teams may have to play again. Prediction: Philadelphia 21-15.

Washington (7-8) vs. Cincinnati (5-9) The Vikings lost control of their playoff destiny in their loss to the 49ers on Monday, but they can still get into the playoffs by winning and waiting for some other scenarios to play out. Prediction: Minnesota 31-20.

Carolina (7-8) vs. Washington (7-8) Heath Shuler injured the pinky finger on his throwing hand last week, and is out for this game. He didn't factor in the Redskins' big win against the Rams last week. The Redskins' defense came to life. Prediction: Carolina 26-24.

Denver (7-8) vs. Oakland (8-7) The Broncos are holding out slim playoff hopes and looking for the first series sweep since 1987. The Raiders are in deep trouble. Jeff Hostetler is out for the season with shoulder surgery. Prediction: Denver 21-16.

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